The Politics of Economic Development in Indonesia

Contending perspectives

Edited by
Ian Chalmers and Vedi R. Hadiz

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The politics of economic development in Indonesia

Indonesia's economy has boomed in the three decades since President Soeharto came to power. Many now regard Indonesia as one of the world's great economic success stories. But economic change has not come easily, and has given rise to intense debates within Indonesia about the ideals and goals of development.

Translating key speeches and articles by leading Indonesian figures, Ian Chalmers and Vedi R.Hadiz present and analyse trends in economic thinking during this period. They outline three streams of thought advanced by contending political forces which have long influenced policy making: economic nationalism; economic liberalism; and economic populism. Tracing their evolution, this volume demonstrates that Indonesia's recent economic success has been accompanied by a growing diversity of views about Indonesia's future. These views will vie for dominance as Soeharto's presidency inevitably comes to an end.

Despite increased Western interest in Indonesia's economy, domestic interpretations of its development experience remain largely unknown outside Indonesia and have rarely been available in English. *The Politics of Economic Development in Indonesia* offers a unique insight into domestic policy debates, allowing Indonesians to present a range of perspectives on development to a wider audience and giving outsiders a greater understanding of the future direction of the Indonesian economy

Ian Chalmers is lecturer in Southeast Asian Politics and Indonesian Studies, Curtin University, Australia. **Vedi R.Hadiz** is research fellow, Asia Research Centre, Murdoch University, Australia.

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For Karla and Aisha, Lina and Ratna

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Sritua Arief (b. 1938), economist. Arief received a masters degree from Cornell University and a PhD in economics from the University of Hull in the UK. The author of several works critical of New Order economic policy, he has been on the Board of Trustees of the Jakarta-based LSP (The Institute of Development Studies), chairman of a private research group, Sritua Arief Associates, and the director of a bank in West Sumatra.

R.H.Slamet Bratanata (now deceased), engineer and business consultant. A Director-General in the Ministry of Basic Industries and Mining in the early 1960s, he became Minister of Mines in the Ampera cabinet (1966–1967). An outspoken critic of BAPPENAS economic thinking throughout the 1970s, Bratanata subsequently became involved in opposition politics. He was closely associated with the so-called 'Petition of 50' group of prominent dissidents who, in 1980, criticised the President for deviating from the ideals of *Pancasila*.

Arief Budiman (b. 1941), sociologist and political activist. Initially an essayist and cultural figure, he was part of the 1960s student movement that helped establish the New Order. By the early 1970s, however, Budiman had become one of the New Order's most outspoken critics. Though his undergraduate degree at the University of Indonesia was in psychology, he did postgraduate work in sociology at Harvard, where he received a PhD in 1981. Until recently based at the *Universitas Kristen Satyawacana* in Salatiga, he remains a prominent government critic.

Sumitro Djojohadikusumo (b. 1917), economist. Considered the doyen of Indonesian economists, he received a PhD in economics at the *Economische Hogeschool* in Rotterdam in 1942. Linked with the former PSI (Indonesian Socialist Party), he held numerous official positions in the 1940s and 1950s, the most important being Minister of Trade and Industry (1950–1951) and Minister of Finance (1952–1953 and 1955– 1956). He was forced into the political wilderness (and exile) in the late 1950s for supporting the unsuccessful rebel government, PRRI *(Pemerintah Revolusioner Republik Indonesia)*. A close Soeharto associate, he became Minister of Trade (1968–

1973) and of Research and Technology (1973–1978). Now the chair of a consultancy firm, he remains an influential adviser to the President.

B.J.Habibie (b. 1936), engineer and politician. Regarded as the main proponent of the high-tech approach to development, he was educated in Germany where he received a doctorate in engineering in 1965. A specialist in aircraft construction, he rose to become vice-president of the aircraft producer, *Messerschmitt Boelkow Blohm Gmbh,* in Hamburg (1974–1978). Habibie is said to have been asked by Soeharto himself to return to Indonesia, after which he became head of the Advanced Technology Division of the state oil monopoly, Pertamina. He was appointed Minister of State for Research and Technology in 1978, a position he still holds, chairman of the country's main technology research body, BPPT *(Badan Pengkajian dan Penerapan Teknologi),* and chairs various state corporations involved in high-technology industries. He was instrumental in developing Indonesia's fledging aircraft industry. In 1990 he became chairman of ICMI, the Association of Muslim Intellectuals'.

Hamengkubowono IX (1912–88), Sultan of Yogyakarta. He became Sultan in 1940 after studying Indology in Leiden, The Netherlands. At the outbreak of the Indonesian Revolution in 1945, he demonstrated his support for the fledging Republic by placing his domains under its jurisdiction. He also held various positions in government, both before and after the transfer of sovereignty to Indonesian hands. In 1949–1950 and again in 1952–1953 the Sultan served as Minister of Defence; in 1963 he became head of the State Audit Board. Together with Soeharto and Adam Malik (former Foreign Minister and Vice-President), he was a key figure in the early years of the New Order, holding the positions of Deputy Prime Minister for Economics, Finance and Development in 1966, and the Vice-Presidency in 1973–78.

Hartarto, engineer. Minister of Industries, 1983–1993. From 1993 Coordinating Minister for Industries and Trade, and since 1995 Coordinating Minister for Production and Industry.

Soedjono Hoemardani (b. 1919, now deceased), soldier and presidential aide. An army officer with an economic-logistics background, he rose to become a close adviser to Soeharto in the early New Order period. A member of the influential group of ASPRI, 'personal assistants' to the President, led by Ali Moertopo, and of the security organisation, OPSUS. Hoemardhani was renowned as a Javanese mystic. A board member of the think-tank CSIS (Center for Strategic and International Studies), he was appointed in 1978 to the Central Board of Golkar. He also held the key position of Inspector-General of Development.

Indonesia Raya, a respected liberal newspaper published by Mochtar Lubis, the writer and journalist who was a well-known critic of both the Old and New Orders. Closely associated with liberal intellectuals, it was banned in 1974—

along with numerous other publications—for its reportage of the MALARI riots.

ISEI, *'Ikatan Sarjana Ekonomi Indonesia'* (Association of Indonesian Economists). Professional organisation of Indonesian economists. Holds annual conferences during which the pressing development issues of the day are discussed by leading members of the profession.

ITB Student Council, *'Dewan Mahasiswa Institut Teknologi Bandung'* (Bandung Institute of Technology Student Council). ITB is the oldest and most highly respected tertiary-level school of engineering (among its alumni, former President Sukarno). Its student body was among the most vocal and active throughout the 1960s and 1970s, and it retains a reputation for producing outspoken student critics.

KADIN, *'Kamar Dagang dan Industri'* (Chamber of Commerce and Industry). Formed in 1967, it soon became the only officially recognised channel of communication between government and business. Initially, KADIN's leading figures were military figures in state-owned enterprises, as well as politically connected *pribumi* business people. Its chairmen, until the early 1980s, were senior military officers. While the organisation has continued to be dominated by well-connected *pribumi* entrepreneurs, recently some leading Chinese businessmen have also come to play a more prominent role. KADIN's legal status as the umbrella business organisation of the New Order was enhanced in 1987 through legislation. Its chairman in the mid-1990s is successful *pribumi* entrepreneur, Aburizal Bakrie.

Ginandjar Kartasasmita (b. 1941), engineer. Regarded as one of the main advocates of a development strategy emphasising state protection for domestic industry. A former airforce officer, in the 1960s and 1970s he held various administrative positions in the state apparatus, most often associated with the influential State Secretariat that emerged as a key economic policy-making centre in the 1980s. Ginandjar was appointed assistant Minister of State for the Administration of Non-Department Institutions in 1978, and Junior Minister for the Promotion of Domestic Products in 1983. In 1985 he became Chairman of the Investment Coordinating Board, BKPM, and in 1988–1993 served as Minister of Mines and Energy. In 1993 he became the first non-economic technocrat to head BAPPENAS, the National Development Planning Body.

Kwik Kian Gie (b. 1935), economic affairs commentator and politician. Educated at the University of Indonesia and the *Nederlandsche Economische Hogeschool* in Rotterdam, where he received a degree in economics in 1963. In the 1970s and 1980s Kwik headed several of his own businesses, including an electronics retailing firm and a company for importing cloves. He has been a leading figure in the business management school sponsored by many of Indonesia's top Chinese business figures, Yayasan Prasetya Mulya. He now heads the research section of the PDI (Indonesian Democratic Party).

Todung Mulya Lubis (b. 1949), lawyer and human rights activist. Chairman of the Indonesian Legal Aid Foundation in the 1980s, he was educated at the University of Indonesia, the University of Texas, and the University of California at Berkeley. In 1990 he received a PhD in law from the latter, with a dissertation on the concept and application of human rights in Indonesia. He is currently chairman of YAPUSHAM, a Non-Government Organisation (NGO) specifically involved in the study of issues of human rights.

Ali Moertopo (1924–1984), soldier and politician. His career in the army began with his involvement in the war for independence in 1945– 1949. A personal assistant to Soeharto, he was one of the most important figures in establishing the institutional framework of the New Order, largely due to his role as head of OPSUS, a special operations unit linked to the army. Rising to the rank of Lieutenant General, in 1975 he was appointed chairman of the state intelligence coordinating body, BAKIN. He was also honorary chairman of the board of directors of the Centre of Strategic and International Studies (CSIS), a mainly Chinese and Catholic-based think-tank. Moertopo was Minister of Information in 1978–1983, after which he was appointed to the Supreme Advisory Council.

Amir M.S. (b. 1932), businessman. He studied at the Social, Economic and Political Faculty of the National University, Jakarta, from 1954 to 1959. Later, he was the Director of a private pribumi-owned company engaged in trade and shipping.

Mubyarto (b. 1938), economist. Professor of Economics at Gadjah Mada University, Yogyakarta, from where he received his undergraduate degree. In 1965 he gained a PhD from Iowa State University in the USA. A leading figure at Gadjah Mada's pioneering 'Rural Development Studies Centre', he is now a senior official in BAPPENAS, the development planning body, and a leading figure of ICMI, the Association of Muslim Intellectuals.

Fadel Muhammad (b. 1952), businessman. A former activist at the Bandung Institute of Technology (ITB), from where he graduated in 1978 with a degree in engineering, he has been the chief director of the Bukaka group of companies since 1990. A symbol of pribumi business success in the New Order, he has been the recipient of awards from the Indonesian government for his efforts to promote small, indigenous businesses.

Hasyim Ning (1916–1995), businessman. Having participated in the revolutionary war of independence and retiring from the army as a lieutenant-colonel, he soon became one of the major entrepreneurs of the 1950s. A *pribumi,* his major interest was in automotives, having established distributors such as PT Djakarta Motor Company and PT Indonesia Republic Motor. Though he continued to flourish during the New Order and diversified into such businesses as banking, he was clearly superseded in the 1970s by well-connected Chinese businesses.

Widjojo Nitisastro (b. 1927), economist. Perhaps the principle architect of early New Order economic policy, he was head of Soeharto's team of Presidential Economic Advisers in 1966. Initially a career academic, he served as Minister of State for National Development Planning (1971–1973), head of Bappenas (1973–1983), as well as Coordinating Minister for Economics and Industry (1973–1983). Educated at the Faculty of Economics of the University of Indonesia and the University of California at Berkeley, from where he received his PhD in 1961, he remains one of President Soeharto's closest economic advisers.

Mari Pangestu (b. 1956), economist. Pangestu received her doctorate in economics from the University of California at Davis in 1986. She also worked there as a teaching assistant in international trade and a research assistant in applied micro- and macroeconomic policy. Currently a researcher at the Centre of Strategic and International Studies in Jakarta, she is also a well-known commentator and columnist on economic affairs.

Jusuf Panglaykim (1922–1986), economist. Perhaps the most scholarly and influential of the CSIS-based economic thinkers of the 1970s, he was educated at the University of Indonesia, from where he received his doctorate in 1963, and at Harvard University. An academic at the University of Indonesia, he was also a member of the Board of Directors of CSIS, as well as the head of several private financial institutions including Panin Bank, where he served as President Commissioner.

Radius Prawiro (b. 1928), economist. Educated at the *Nederlandsche Economische Hogeschool* in Rotterdam and at the Faculty of Economics, University of Indonesia. Prawiro has held a long list of important government positions since the beginning of the New Order: Governor of the Bank of Indonesia (1966–1973), Minister of Trade (1973–1983), Minister of Finance (1983–1988), and Coordinating Minister for Finance and Industry (1988–1993). He was another member of the team of Presidential economic advisers (1968–1971) that was so influential in the early years of the New Order, and which reasserted itself in the mid-1980s following the fall in international oil prices.

Mohammad Dawam Rahardjo (b. 1942), NGO activist and Muslim scholar. Educated at the Faculty of Economics of Gadjah Mada University in Yogyakarta, Rahardjo worked as a researcher at, and later became director of, LP3ES (The Institute for Economic and Social Research, Education and Information), one of the largest NGOs in Indonesia. He is also an editor of the social and economic affairs journal, *Prisma*. A well-known social and political affairs commentator, he subsequently established LSAF (The Institute for the Study of Religion and Philosophy) and now publishes the religious and social affairs journal, *Ulumul Qur'an.* Rahardjo was instrumental in founding ICMI, the Association of Muslim Intellectuals.

Mohammad Sadli (b. 1922), economist. Initially trained as an engineer at Gadjah Mada University, Yogyakarta (1952) and MIT (1956), he subsequently took up economics at the University of California at Berkeley, the University of Indonesia—where he received his doctorate in 1964—and at Harvard. Although essentially an academic, he has held the cabinet positions of Minister of Manpower (1971–1973) and of Minister of Mining (1973–1978). Part of the team of economists that played such a large role in setting economic policy direction in the late 1960s, he has also been an adviser for the Chamber of Commerce and Industry, KADIN.

Emil Salim (b. 1930), economist. Educated at the Faculty of Economics, University of Indonesia, and at the University of California, Berkeley, where he received his doctorate in 1964. Yet another of the team of economists that shaped early New Order economic policy, he has served as Deputy Chairman of Bappenas (1971–1973), State Minister for the Reform of the State Apparatus (1971–1973), Minister of Transport (1973–1978), Minister of State for the Supervision of Development and for the Environment (1978– 1983), and Minister of the Environment (1983–1993). Until his retirement, he was among the longest serving of Soeharto's Ministers.

Adi Sasono (b. 1943), NGO activist. A former student leader at the Bandung Institute of Technology (ITB), Sasono initially began his career in the business world, where he was General Manager of PT Krama Yudha Philips Welding Electrode Manufacturing (1975–1977). He later founded an NGO, the Institute of Development Studies (LSP) in 1978. Appointed as a committee member to the National Defence and Security Board *(Dewan Pertahanan dan Keamanan Nasional)* in 1979, he is now a leading member of ICMI, the Association of Muslim Intellectuals.

Frans Seda (b. 1926), economist, politician and businessman. Dutch-educated (with a degree in economics from the *Katholieke Economische Hogeschool,* Tilburg in 1956), he was the leader of the Catholic Party from 1961 to 1968. In the 1960s and early 1970s he served as Minister for Plantations, Minister of Agriculture, Minister of Finance, and Minister of Transport and Tourism. A former member of the Supreme Advisory Council, he is also the founder of Atmajaya Catholic University and has been chairman of the Association of Textiles Producers, API.

Sjahrir (b. 1945), economist. A student leader in the 1960s and early 1970s, he graduated from the Faculty of Economics of the University of Indonesia in 1973. Sjahrir was subsequently imprisoned for several years following the MALARI riots of January 1974. He received a PhD in Political Economy and Government from the Faculty of Arts Sciences, Harvard University in 1983. Formerly Chief Economist at the Centre for Policy Studies in Jakarta, he currently heads *Yayasan Padi dan Kapas* and the Institute for Economic and Financial Research, both in Jakarta. Sjahrir comments extensively on the Indonesian economy in the national press.

Soedjatmoko (1922–1989). One of the mostly highly respected intellectual figures in Indonesia in his lifetime, Soedjatmoko dropped out of medical school in Jakarta in 1943 during the Japanese occupation. A member of the Indonesian Socialist Party (PSI), he was a delegate to the UN in 1947–1951. During the New Order period he served as Ambassador to the US (1968–1971), Personal Assistant to the Foreign Minister (1967–1977), and Social-Cultural adviser to BAPPENAS (1971–1980). In the 1980s he was appointed Rector of the United Nations University in Tokyo. Soedjatmoko published extensively, in both Indonesian and English, on a wide range of economic, social and political issues. He received several honorary doctorates, including one from Yale University.

Soeharto (b. 1921), President of Indonesia. He began his military career in the 1940s Dutch colonial army, KNIL, and the Japanese-occupation force PETA, 'defenders of the motherland'. Taking part in the revolutionary war of 1945–1949, he rose in the ranks of the new national army to become commander of the Central Java Command in the 1950s. In the early 1960s he was commander of the 'Mandala Operation', the military effort to wrest control of Dutch-held West Irian. As commander of the Strategic Reserve Command (KOSTRAD), Soeharto led the army's crushing of the Indonesian Communist Party in 1965–1966. In March 1966, President Sukarno effectively transferred powers of government to then Major-General Soeharto, although he was finally appointed full President in 1968.

Abdoel Raoef Soehoed (b. 1920), engineer. A proponent of an industrialisation strategy which emphasises backward and forward linkages between industries. Soehoed was Minister of Industries from 1978 to 1983. He also served as deputy chairman of the Investment Coordinating Board (BKPM) and head of the capital-intensive Asahan aluminium project. After he was replaced as Minister, Soehoed was appointed to the Supreme Advisory Council. A former student of the *Technische Hooge School,* Bandung (later ITB), and the Technical High School in Yogyakarta, he also graduated from the air force staff and command school (1952). Soehoed retired from the airforce with the rank of major.

Sarbini Sumawinata (b. 1918), economist. Educated in Indonesia and the Netherlands, he received a masters degree in economics from Harvard University in 1954. In the civil service, he was appointed head of the Central Bureau of Statistics in the mid-1950s. Appointed professor to the Faculty of Economics of the University of Indonesia in 1959, he played a crucial role in the early New Order as the head of the President's team of political advisers. Sarbini soon became a vocal government critic, however, and was jailed for two-and-a-half years—without trial—following student riots in early 1974 (the MALARI Affair). He has since been owner and managing editor of a publication for commercial news published thrice weekly, *Business News.*

Supreme Advisory Council (DPA, *'Dewan Pertimbangan Agung'*). One of the most important state institutions according to the 1945 Constitution, its forty-five members are usually senior and retired government figures. After its dissolution in the late 1940s it was reconstituted in 1959. Although it offers advice and proposals to the President, the DPA's real power and influence is much less than its formal stature.

Enin Supriyanto (b. 1962), student activist. Supriyanto studied design at the Institute of Technology in Bandung (ITB) from 1984 to 1989, when he was arrested for involvement in an on-campus student protest. An activist of student discussion groups, he was imprisoned for several years.

Bambang Beathor Suryadi, student activist. A leading figure of the radical student organisation, PIJAR (Information Centre and Network for Reform Action), Suryadi was imprisoned in 1990 for defaming the President. He was released in 1993, since when he has continued his activities in pro-democracy groups.

Ali Wardhana (b. 1928), economist. Another of the economists based at the University of Indonesia and trained at Berkeley (receiving a PhD in 1962) who have held important economic portfolios in the New Order. He began his career as an academic and was Dean of the Faculty of Economics of the University of Indonesia from 1967 to 1983. He was Minister of Finance (1968–1983) and Coordinating Minister for Economics, Industry and Supervision of Development (1983–1988) and has also held important positions with the World Bank and International Monetary Fund.

World Bank (International Bank for Reconstruction and Development). Indonesia first joined the IBRD in 1954 and left in 1965, without receiving any loans. Indonesia rejoined the organisation at the beginning of the New Order in 1967. In 1968 the World Bank provided the country with its first loan, and it has since continued to be a major provider of funds for development programmes. A member of the IGGI (Inter-Government Group on Indonesia), the IBRD has chaired a new consortium of creditors since the collapse of IGGI in 1992.

NOTE

1 Sources: *Apa dan Siapa: Sejumlah Orang Indonesia, 1982–1983,* Jakarta: Grafitipers; *Apa dan Siapa: Sejumlah Orang Indonesia, 1985–1986,* Jakarta: Grafitipers; Redaksi Kompas (1982), *Mencari Bentuk Ekonomi Indonesia,* Jakarta: Gramedia; Cribb (1992), Robison (1986), Crouch (1988) and various other sources.

Foreword

In 1970, Herbert Feith and Lance Castles produced an edited collection of critical political writings and statements by Indonesians. Titled *Indonesian Political Thinking, 1945–1965,* it was to become an indispensable volume for students of modern Indonesia and remains a record of the ideologies, strategies and thoughts that drove political change in Indonesia during that critical period.

Since then, no comparable volume has attempted to capture Indonesian political or economic thinking within a coherent and structured volume despite the dramatic changes that have taken place. While there has been no shortage of secondary analysis, usually by non-Indonesians, the thoughts and plans of Indonesians who set the agendas, or resisted them, have not been widely available to the outside world, especially to non-Indonesian speakers.

It was to address this void that the Asia Research Centre at Murdoch University decided to fund a collection of primary documents on economic thinking in the period of Indonesia's New Order government, which has been in place since early 1966. The editors, Ian Chalmers and Vedi Hadiz, have been faced with the tasks of selecting those pivotal documents that give a sense of the complex collision of ideologies, interests and political forces that characterised economic policy-making in the period and providing a sense of the structural constraints under which they operated. To give coherence and context without intruding too far onto the voices of the Indonesian actors, they have also developed commentaries that place the primary documents in perspective.

On one level, their task has been assisted by the sheer volatility of the period. It has not been a boring time. Over the past thirty years, Indonesia's economy has been dramatically industrialised and more closely integrated into the global economy. It has also undergone major shifts in direction. An initial apparent surge of liberal reform was to founder as the oil boom of the 1970s and early 1980s gave fresh life to policies of economic nationalism and strategic industry. In turn, this nationalist revival came under assault from market liberalism in the past decade as oil prices collapsed and Indonesia was pushed to seek new competitive niches in the global economy. The process was very much a political one as liberal reformers battled with corporate conglomerates, politico-business families, populists and economic nationalists.

These fractures were formed around issues that have been central to the Indonesian economic debate since the 1950s: the place of the *pribumi* (indigenous Indonesians) in an economy dominated by Sino-Indonesian capital; the relationship of state capital and the private sector; concentration of wealth and power in relation to development of small-scale and rural interests; the place of foreign capital in the achievement of broader national goals. However, these debates have been given new dimensions as Indonesia becomes increasingly embraced within global and regional systems and organisations. The WTO, APEC and AFTA all bring requirements for changes in trade regimes. Attracting international portfolio investment to the Jakarta Stock Exchange brings pressures for increased regulation of the corporate world.

While Indonesia brings its own particular conjuncture of issues, social interests and political and business forces, these operate in the sort of environment that is common to many developing industrial economies. The Indonesian case is therefore valuable from a comparative perspective as well as being important in its own terms.

Ian Chalmers and Vedi Hadiz bring substantial experience and expertise to bear on the project. Ian completed a PhD on the Indonesian automobile industry and has worked extensively on the question of industry policy. Vedi has recently completed a PhD on labour in Indonesia and has a deep knowledge of the populist streams in Indonesian economic and political thinking. Such strengths have meant that the collection is not confined to a narrow focus on the thought of the economic technocrats but encompasses the full dimension of the contest for ascendancy in policy formulation built on an appreciation of the structural, political and social basis of these struggles.

Richard Robison
Asia Research Centre
Murdoch University

Preface

In late June 1994 the publication permits of three widely read Indonesian weekly news publications were suddenly revoked. These bannings caught most observers unprepared, for this was the first large-scale action taken against the press since 1978, when seven daily newspapers and seven campus newspapers were banned following the reporting of anti-government protests at national universities. The measures taken in 1994 to silence the three publications, *Editor, Detik* and *Tempo,* were especially significant because they marked the final end of a period of relative political liberalisation that had given journalists greater latitude to comment on matters of national importance. Over the previous five years a steady stream of articles had critically analysed such controversial topics as the political role of the Armed Forces, abuses of human rights, the 'leakages' that periodically occur in the state development budget, and, even that most sensitive of topics, the burgeoning business interests of the President's family. Many had hoped that after almost three decades in power Indonesia's New Order government had become more tolerant of—and less sensitive to—press criticism. But in early June 1994 the President stated that the press was endangering national stability by encouraging such controversies. He indicated his particular displeasure with coverage of a cabinet dispute over plans for a massive new outlay on ships for the navy. Two weeks later the licences of the three publications were withdrawn.[1]

The significant aspect of this multiple banning is that it was evidently the exposure of internal government divisions over economic policy that was the immediate catalyst for the crackdown on press freedom. The President's protégé, Minister for Research and Technology B.J.Habibie, had arranged to purchase thirty-nine ships of the former East German navy and rehabilitate state-owned shipyards to prepare for their repair and refurbishment This proposed expansion of the national shipbuilding industry was one component of his ambitious scheme for building self-reliance in high technology industries. These arrangements were opposed, however, by certain ministers who were sceptical of such expensive state-led development schemes. It was opposed in particular by Minister of Finance Mar'ie Muhammad, a man generally regarded as an economic liberal, who stressed the need for fiscal caution and preserving Indonesia's reputation for maintaining a balanced budget. By exposing the

conflict between supporters of high-technology industrialisation and the economic pragmatists, the dispute thus brought to the surface an ideological struggle with deeper historical roots, namely the tension between the desire to build national strength and the need to adapt to the demands of a more internationalised economy.[2]

This book arose from the attempt to identify the various ideas on development thinking which have influenced public policy in recent years, and to explain why differences over economic goals continue to be so controversial politically. Although Indonesia's recent development experience has begun to attract significant attention from foreign experts and observers, there is much less available in English written by Indonesians themselves; it is almost exclusively the views of prominent government officials that make their way into the headlines of the Western press. Important differences over national development objectives are further blurred by a political discourse which eschews conflict and emphasises consensus. The fiction is created that there exists a monolithic national perspective on a broad range of matters, effectively marginalising alternative views. Outsiders are thus often unaware of the rich diversity of ideas that inform debates on development issues in Indonesia. The motivation for this collection is to allow Indonesians to present to a wider audience their views about the development process and the future society they seek, while giving English-speaking readers access to a more diverse range of opinion than is perhaps currently available.

It not only this diversity, however, that we seek to present What we also hope to capture in the book is the intensity of the debate on development, and its often high degree of reflectiveness. These contributions are characterised by the propensity of the writers to ask basic questions about the development process and the future direction of the nation. There is a strong inclination to refer to the past and the legacy of the long independence struggle in shaping the values of the nation. Although there is a sense of immediacy in these selections, for they are usually a response to, or commentary on, a specific issue of the day, it will also become clear to the reader that they address fundamental questions which, in various ways, have preoccupied Indonesians since the days of the anti-colonial struggle. Indonesians have long debated, for example, whether priority should be given to the goal of social equity or the need for economic growth, and whether these objectives can be pursued simultaneously. Does development require a central role for the State, or should Indonesia rely on the dynamism that can be provided by the market? We propose that in dealing with such issues distinct streams of economic thought have emerged, the ideological roots of which reach back to the period prior to 1966—and even to the colonial period.

The volume consists of forty-five selected speeches and writings by senior state officials, academics, planners, student activists and representatives of Non-Government Organisations (NGOs). The years covered include those of the first five Five-Year Development Plans, 1968 to 1993, an era now dubbed the 'First Period of Long-term Development', and the years immediately preceding it.

Many of the selections have appeared in the Indonesian press, and others have been taken from books, unpublished speeches, seminar papers and documents. Some contributors are better known than others. The concern throughout has been to put forward representatives of the various orientations in economic thinking that we have identified.

In arranging this collection we were struck by the extent to which the debates within each of these streams gave expression to a deeper ideological antagonism, namely the tension between objectives that derive from Indonesia's history and the need to respond to changing economic circumstances. It is this tension which constitutes the organising principle of this collection. While we have taken pains to include as broad a range of views as possible, we have necessarily concentrated on this central focus. Thus, readers will find that many important debates on development issues not directly relevant to our main theme are discussed only marginally.

As one would expect of a collection of this sort, the contributions are of variable quality, Some are particularly well-written, and some rather lengthy excerpts have been included because of the cogency of the argument or the clarity of the exposition. Others were written by people engaged in day-to-day political or business activity, and have been included because they represent a point of view of an important section of the community. In all cases we have attempted to provide an accurate translation and to preserve the 'flavour' of the original.

When examining the list of contributors the reader may be puzzled by the spelling of some of the names, and an explanation requires some knowledge of the idiosyncrasies of Indonesian spelling. Since the 1960s the government has on a number of occasions introduced revisions to the spelling system, and the old *oe* has now become *u, tj* has become *c* (pronounced *ch*), *dj* has become *j*, and *j* has become *y*. Soepomo is thus now commonly spelled Supomo, Sjahrir is sometimes spelled Syahrir, and Soekarno is usually spelled Sukarno. The important exception to the revised spelling system concerns personal names, and many individuals have chosen to retain the old spelling, or parts thereof. We thus face the somewhat paradoxical situation in which historical figures are now generally referred to with the modern spelling, but many contemporary figures retain the system which became established in the last century. Many non-Indonesian authors apply the modern system consistently, but we have chosen to respect the preferences of the individuals concerned. Consequently, one will find here prominent figures such as Soeharto, Jusuf Panglaykim and Sumitro Djojohadikusumo who elsewhere, in works using the revised spelling, may be referred to as Suharto, Yusuf Panglaykim and Sumitro Joyohadikusumo.

A final matter also concerns the use of personal names. Indonesians commonly refer to certain well-known Indonesians by their personal rather than their family names, and in the text we also refer to Widjojo rather than Nitisastro, Sarbini rather than Sumawinata, Ginandjar rather than Kartasasmita, Fadel rather than Muhammad, and Sumitro rather than Djojohadikusumo. We

follow the literary convention, however, and list publications under family names.

In designing this work we wish to acknowledge our intellectual debt to a 1970 publication by Herb Feith and Lance Castles, *Indonesian Political Thinking,* which gave us the initial intellectual inspiration and served as a standard against which we would measure our effort. While we cannot hope to match the comprehensiveness of that collection, we have endeavoured to show the continued relevance of many of the issues it raised. We also wish to extend a special word of thanks to Richard Robison, who originally encouraged us to take on the project. We express our appreciation to those who assisted with finding materials for this collection, particularly David Hill, Hal Hill and Robinson Pangaribuan. Helen Bradbury of the Asia Research Centre provided valuable assistance in preparing the manuscript for publication, in both its early and final stages.

I.C.
V.R.H.

NOTES

1 The methods used by the New Order to control the press since 1966 and the significance of 'the anachronistic bans of the 1990s' are summarised by D. Hill (1994:34–44). In late 1995 *Tempo* successfully appealed against the ban in the State Administrative Court (PTUN), but the government has since had this ruling overturned in the Supreme Court.

2 When the costs of repair and refurbishment were included, the price mounted steeply from what seemed a bargain price of just US$12 million to over $1,000 million. Habibie's scheme and its policy implications are discussed by Schwarz and Clifford (1993) and McBeth (1994). The article detailing the deepening conflict within government ranks and which is thought to have stirred the government's particular ire was 'Jerman Punya Kapal, Indonesia Punya Beban' (Germany's Ships, Indonesia's Burden), *Tempo,* 4 June 1994:88–99.

Acknowledgements

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Introduction*

Ian Chalmers

Conflict is as much a part of day-to-day politics in Indonesia as in any other country. Although this conflict is often obscured by a political discourse that extols harmony and unity, Indonesia's leaders are engaged in the same political contestation and formation of alliances which is characteristic of political processes generally. And, as in other political systems, Indonesia's leaders seek to reinforce the gains thus made by appealing for national unity behind particular common objectives. What is worthy of note is the frequency with which Indonesia's leaders reaffirm the importance of these objectives, a phenomenon which even the casual observer will note.

In government announcements particular reference is made to *Pancasila,* the 'Five Principles', which were proclaimed as the basis for the Indonesian state by Sukarno, the Republic's first president, shortly before the declaration of independence in 1945. These principles, now official state ideology, are in themselves quite unexceptional. Their significance lies in the manner in which they have been canonised in official discourse, transformed into values expressing a common purpose to which all of society should adhere.[1]

A second common objective to which Indonesian politicians frequently refer is *pembangunan,* a term generally rendered into English as 'development'. The word has two related meanings. One cluster of meanings is associated with the more prosaic processes of physical development. Thus *pembangunan industri* is 'industrial development'; *pembangunan rumah,* 'housing construction'. However, the Indonesian term also bears a second cluster of meanings that are far more abstract than its English equivalent The root of the word is the verb *bangun,* 'to build, uplift, awaken', and the noun can also mean 'awakening' or 'emergence'. The term resonates with ideological content, and it is this second cluster of meanings which dominates its usage in contemporary political discourse. The word prescribes both the nation's destination and the path by which that objective will be reached, and is the most unambiguous example of a common purpose binding together the diverse peoples of the archipelago. It is

* My thanks to David Bourchier, Stephen Frost, William Liddle and Paul Tickell for their comments on an earlier version of this Introduction.

pembangunan which provides the discourse within which public figures in Indonesia must operate.

Given the widespread acceptance which the development objective enjoys, it might therefore seem somewhat paradoxical that the most intense political struggles in Indonesia continue to revolve around economic policy issues. Far from there being a consensus over economic policy objectives, policy debates make it evident that there are widely varying perspectives on what constitutes true *pembangunan*. Some of those involved in policy making consider the ultimate objective of policy to be the creation of national economic resilience, and would provide the state with a central role in organising social forces to achieve this end. Others emphasise the importance of market forces in stimulating economic expansion, and give priority to promoting the efficient use of resources. Still others believe that true development means promoting equitable development, and stress the importance of state intervention to assist the economically weak. This book is primarily concerned with the debate that has taken place between protagonists of these different views over the last three decades. But each of these perspectives has a longer intellectual history, and the reader cannot appreciate the significance of current debates without knowing a little of this history.

In the early decades of this century the verb *bangun* had a restricted range of meanings, and the noun did not exist As late as 1932 Mohammad Hatta, the future Vice-President and the foremost economic theoretician in the nationalist movement, could write extensively on welfare and development issues without mentioning the term.[2] But the word gained new associations when adopted by prominent intellectuals in the nascent nationalist movement in the second half of the decade. Politicians like Hatta, Sjahrir, Sutomo and Sam Ratulangi placed greater emphasis on the struggle against foreign imperialism, and increasingly used *pembangunan* to describe the anti-imperialist struggle.[3] What had been a descriptive word was now tied to the process of nation-building, and inevitably heavily politicised.

> The formation of the historic noun, *pembangunan,* (from a verb which had long been available), constituted a revolutionary event. This abstract noun, once it had become general and was followed by abstractions of various other words, changed the focus of attention and the worldview of the society.
>
> (Heryanto 1988:13)

It is in this second, revolutionary, sense that the 1945 Constitution gives the state responsibility for bringing into existence the ‘just and prosperous society’ *(masyarakat adil dan makmur)* promised by independence. In the early years of independence the term was used less often, as the attention of politicians was focused on economic recovery from the damage caused by recession, war and revolution. But the subsequent mobilisation of large sections of the population by

a political leadership intent on building a new society endowed the term with increasingly revolutionary connotations. As described at greater length below, its populist and anti-capitalist associations became more explicit. For many political leaders and much of the intellectual community this archetypal modernist term came to signify the struggle to create the projected nation-to-be.

The events of 1965 proved to be a major turning point in the history of political thought of modern Indonesia. The head of the Strategic Command, Major-General Soeharto, was able to seize control of the capital after a badly managed coup attempt by leftist junior military officers on 30 September. By mid-1966 Soeharto and the central leadership of the Armed Forces (ABRI, *'Angkatan Bersenjata Republik Indonesia'*) had also assumed political control. Supported by various intellectual and middle-class forces, in 1967 Soeharto ushered in a 'New Order' government to replace the tottering regime of the first President. Although there are important continuities between the two regimes, in particular the extent to which political authority remains concentrated around the Presidency, this political realignment had far-reaching ideological consequences. If the Sukarno regime had based its authority on the personal charisma of the President and his considerable capacity to arouse nationalist sentiment, Soeharto's government sought legitimacy with the promise of future economic development. Against the backdrop of virtual economic collapse, the new focus on rehabilitating the economy to lay the groundwork for material expansion was particularly potent. The new definition of *pembangunan* became an ideology in the strongest sense of the term, describing the purpose of political activity, the methods used to achieve that goal, the attitudes which public figures should express, as well as serving as an effective ideological weapon against opponents of the regime or proponents of alternative visions.[4]

Despite the passage of time, recourse to this ideology has become more rather than less frequent, and the term has now assumed an all-embracing ideological mantle. In the 1970s and 1980s senior state officials made frequent, and often almost daily, reference to 'economic takeoff' as the ultimate purpose of the nation. A series of five-year development plans (REPELITA, *'Rencana Pembangunan Lima Tahun'*) mapped out the trajectory of Indonesia's development, leading to the takeoff scheduled for 1994.[5] Coordinated and overseen by a powerful state, these plans have proved to be more than programmes to marshall economic resources. The political leadership has frequently legitimised policy initiatives by reference to the objective of rapid development, and demonised opponents for being *'anti-pembangunan'*. Indeed, the transformation of a particularly weak state into one that is much stronger has come about largely because the existence of these plans have allowed the government to claim credit for Indonesia's recent development The 1994 date for 'takeoff' has come and gone and reference to the objective has receded, but the ideological importance of *pembangunan* has persisted. The *Pancasila* has itself been largely redefined around the goal of economic development, with the

'pure and consistent' implementation of core *Pancasila* values considered necessary to realise *pembangunan*.[6]

Pembangunan is also a source of political vulnerability for the regime, however, precisely because of its historical roots. There are at least three reasons for us to question whether the *pembangunan* ideology will remain a politically effective rallying call uniting varied forces behind government policy in the 1990s. Firstly, *pembangunan* is an inherently dynamic concept predicated on social change, and the vision of *pembangunan* as a struggle to build a new society has persisted. Yet the *Pancasila* and much of New Order rhetoric is innately conservative, resting on the creation and preservation of 'traditional' values. Such values generally support the existing social order, and carry the danger that they may be perceived as merely maintaining the power and privilege of a ruling elite.

Second, the very concept of *pembangunan* contains an inherent tension between an emphasis on the common good and on promoting individual initiative. As described below, a 'communitarian' or 'collectivist' understanding of development was generally given priority over that of 'individualism' in the first two decades of independence, and this definition of the national interest relegated individualism to political obscurity. But the social environment in which economic policy is formulated has changed fundamentally. The political and social organisations that were the most vocal advocates of collectivism in the first two decades of independence—notably those of the Nationalist Party (PNI), the Communist Party (PKI) and various Muslim parties—had little political influence after 1965; the PKI and its related social organisations were destroyed. As Indonesia became more closely integrated into the international economy, a more pro-business ethos gradually took hold amongst state planners and within important sections of the public. The subsequent spread of capitalist social relations changed the Indonesian political economy from a 'bashful sort of capitalism' into one which, by the early 1980s, was unambiguously built on the pursuit of individual happiness; profit-making is now politically legitimate in a way that was barely imaginable before 1965.[7] This new social ethos has widened the cleavage with the populist, communitarian definition of *pembangunan,* and striking a balance between the desire to protect an overarching common good and the need to promote individual initiative has placed the ideological coherence of *Pancasila* under some strain.

The final and most important reason for doubting that the official definition of *pembangunan* will continue to maintain its ideological supremacy is that the frequent repetition of the term in government statements conceals some major ideological differences both within state circles and in the wider community. The definition of what constitutes the 'common interest' of the Indonesian nation and the proper role of the state in the economy has been strongly contested since independence, and the differences which emerged in the first two decades of independence have largely persisted.

The first three sections of this introductory chapter explore the origins of these differences, recounting the historical circumstances which generated distinct streams of economic thought. The following sections outline the discourse within which the economic debates of the post-1966 era have taken place. Specifically, we employ the concept of the 'political public' originally introduced by Herbert Feith to describe the community of political and intellectual activists in Indonesia in the 1950s. This social category extends beyond the political elite and includes middle-class groups that have at least a latent capacity to influence political decisions. The relevance of this framework for our purposes is that economic growth since 1966 has led to the entry of new actors into policy debates. While state officials undoubtedly remain the most important participants in development policy debates, we will argue in this volume that the engagement of parts of the political public outside the immediate circle of decision-makers has preserved these distinct streams of thought, injecting important questions of legitimacy into the policy making process.

The historical context: the commitment to populist development, 1940–1950

There is a strong tendency for writings on Indonesia's development experience to focus on the economic achievements that have been made since 1966 and to dismiss the years prior to the drafting of the first *Repelita* in 1967/68 as a sort of planning black hole characterised by political turmoil and economic disarray. This is understandable, given the parlous state of the economy in the last years of the Sukarno regime and the strides which have been made since then. But one stream of thinking which continues to profoundly influence economic thinking was established long before 1966, for the colonial experience gave birth to a political leadership strongly committed to economic populism.

A major objective of policy-makers after independence was to promote economic diversification to overcome what had become known as the *ekonomi kolonial,* by which they meant the dualistic economic structures which were the legacy of colonialism.[8] From the time Dutch merchants began to dominate trade in the archipelago in the late seventeenth century and until the colonial government was ousted by the Japanese in 1942, the economy of the Indies had consisted of a small, European-dominated, modern sector linked only tenuously to a vast, indigenous agricultural economy. The colonial administration paid only intermittent attention to promoting the economy as a whole, and the small amount of foreign investment that had entered the country flowed mainly into the lucrative plantation and mining (including oil) sectors. There was an influx of foreign investment in the late 1920s, foreshadowing a minor boom during the 1930s when a shortage of imports encouraged import substitution. Dutch, British and American investment expanded in certain manufacturing sectors. Finally, in 1941, on the very eve of colonial rule, the government formulated an *'Industrie-plan'* whereby state corporations would initiate and implement large-scale

industrial projects. But the growth of manufacturing in the 1930s was too brief to have a lasting impact, and the 1941 plan was not implemented until after independence.[9]

The important legacy of this neglect of the economy was that most nationalist politicians equated colonialism with imperialism and a distorted economy. They sought to overcome economic dualism by weaning the economy away from its overwhelming dependence on the export of primary goods. It is also significant that virtually no important politician was engaged in business activities, and the preponderance of professionals and frustrated bureaucrats amongst nationalist ranks tended to shift political and economic thought leftwards. The ideas of Lenin and Bucharin were widely accepted at the time, leading most nationalists to also associate capitalism and economic liberalism with imperialism and exploitation (Kahin 1952:50–53). By the 1940s virtually all political parties had adopted anti-imperialist doctrines strongly tinged with the determination that, after independence, state authority would be used to both promote a more diversified sectoral balance and realise social justice (Sutter 1959:687–693).

The struggle against the *ekonomi kolonial* thus entailed a conviction that wealth should be redistributed, and inevitably involved issues of ethnicity. Colonial rule had brought alien control of virtually all important economic resources, and this social environment provided fertile soil for the growth of anti-foreign sentiment. The East Indies was an ethnically plural society comprising a small European elite, a larger ethnic Chinese community that dominated small-scale trading, and a mass of indigenes, very few of whom were able to penetrate the middle or upper reaches of society. Social interaction between these communities occurred primarily in the economic domain, and it was here that ethnic tensions grew most sharp (Furnivall 1939). The second important outgrowth of Indonesia's colonial past was political pressure for the indigenisation of ownership, pressure which generally took populist political forms.

In the Outer Islands, and especially in Sumatra, indigenous traders had been able to match competition from non-indigenous business groups (Robison 1986: 21–22). In Java resistance took a more political form. The first overtly political mass movement in Indonesia, the *Sarekat Dagang Islam* (Muslim Trading Association), originated in moves to counter the entry of Chinese merchants into sectors traditionally dominated by indigenous business.[10] The association expanded at a rate that astonished both the Dutch authorities and its own founders, quickly developing into an umbrella organisation for political forces extending far beyond its business origins. By 1919 membership of the organisation, renamed *Sarekat Islam* (Muslim Association), had swollen to two-and-a-half million. The significance for future economic policy was that the economic grievances originally voiced by indigenous entrepreneurs had become an important cause for nationalist politicians. As a 1920 government report observed, 'the core of the nationalist movement is, therefore, the revolt of the increasingly productive powers of an early-capitalist native society against the

economic and political domination of "foreign capital"' (cited in van der Kroef 1950:180).

The indigenous society became more diversified in the 1930s, and the widespread hardship caused by the depression was accompanied by the expansion of certain *pribumi* business groups.[11] This process was cut short, however, by the unprecedented political uncertainty of the 1940s. Communication with Holland was severed by the Nazi invasion in 1940, the colonial administration was overthrown by the Japanese in 1942, and national independence was declared after the Japanese surrendered to allied forces and Dutch politicians indicated that Holland would try to reclaim its former colony. There followed four years of physical and diplomatic warfare, culminating in full political sovereignty in late 1949. During this period of economic and political strife, nationalist politicians were nevertheless able to articulate a vision of the *ekonomi nasional,* an integrated national economy that would replace the inherited *ekonomi kolonial*.[12]

By the time full independence was achieved in 1949, therefore, political leaders understood 'Indonesianisation' to mean economic diversification, material expansion, and the transfer of ownership into indigenous hands (Feith 1962:373–374). The nationalist struggle had raised expectations of material expansion once colonial constraints were removed; it was hoped that a flowering *of pribumi,* 'indigenous,' entrepreneurship would redistribute the benefits of this growth. The objectives of encouraging economic growth while promoting social equity were not necessarily contradictory. In the following years both would be promoted successfully during periods of economic expansion. But the ideological resolution to these two objectives was a form of populist developmentalism that entailed heavy state involvement.

Proposals for state intervention in the economy did not reflect a commitment on the part of all Republican leaders to economic collectivism *per se*. Certainly, an influential body of nationalist thinking hostile to the perceived individualism and materialism of the West had emerged prior to independence. These intellectuals sought to create a system which subordinates individual interests to the common good.[13] People like Professor Supomo conceived of the state as an organic whole superior to its individual components, and suggested that the Indonesian state be organised along the communitarian lines of the 'family principle'. The future President, Sukarno, also intended that the *Pancasila* form the conceptual basis for a corporatist political system, and argued that *gotong-royong,* 'mutual cooperation for an agreed objective', should be the dominant mode of decision-making. However, many of the political leaders of the young Republic had been educated in the West, and most were committed to democratic political norms. By the time full independence was won in 1949 most leaders were committed to implementing a liberal-democratic political system.

This was not the case in the economic domain, however, where the struggle for national sovereignty meant that communitarian principles were never far from the surface. The economic thinking of the nationalists was most heavily

influenced by Mohammad Hatta who, like most thinkers of the time, had been heavily influenced by Marxist critiques of capitalism. In an influential statement released in 1946, *'Ekonomi Indonesia di Masa Datang'* (The Future Indonesian Economy), the then Vice-President Hatta equated cooperation with the West with support for imperialism (Sutter 1959:385–395). He proposed that state-run cooperatives encourage the spirit of mutual cooperation *(gotong-royong),* and that a network of cooperatives would become the vehicle to bring the economy under national control (Reeve 1985:36–41). Hatta's ideas were almost universally accepted prior to independence, and were incorporated in the most famous and most unequivocally collectivist article of the 1945 Constitution. Article 33 declares that:

1 The economy will be organised collectively on the basis of the Family Principle;
2 The state will control *(menguasai)* branches of production which govern the lives of the masses; and
3 The earth, water and the natural resources they contain will be controlled by the state, and used, as much as possible, for the welfare of the people.

(Pringgodigdo 1966:92 (my translation))

This commitment to economic populism was complicated by continued Dutch control of the economy. The Round Table Agreement signed by Republican leaders in The Hague in 1949 guaranteed that the rights granted to foreign capital would be respected, and Dutch firms thus retained control of major sectors of the economy. At the same time, the need for large-scale foreign investment clashed with the political imperative of building national sovereignty. This tension was resolved by advocating state intervention to promote the people's economy, for only state corporations had both the necessary economic resources and the political legitimacy to bring the economy under national control. Higgins (1957: 102) reminds us of the dictum of Haji Agus Salim, a founder of Sarekat Islam, who had proclaimed that the struggle for political independence would be followed by the struggle for economic sovereignty. Salim was a political moderate who sought to promote a modern indigenous bourgeoisie. But the virtual non-existence of such a bourgeoisie meant that after independence his famous dictum was widely reinterpreted as endorsing state intervention; even parties that favoured private business preferred a regulated economy to the foreign domination of 'free-fight capitalism'.

After full independence was won in 1949 all political leaders were therefore avowedly socialist in some sense of that term, and virtually all favoured populist policies giving the state ownership of vital sectors of the economy in order to promote the common good. The colonial experience had given birth to a highly politicised definition of *pembangunan* with strongly collectivist overtones, one which implied a general 'uplifting' of the welfare of the people.

Burgeoning economic nationalism and the recourse to statism, 1950–1958

Collectivist political ideas were to become more widespread during the 1950s, as frustration with constitutional democracy weakened the appeal of political liberalism. And towards the end of the decade frustration with the pace of development thrust the state into a dominant role in the economy. But in the first half of the 1950s political leaders generally could do little other than operate within the confines of an economy dominated by foreign interests (Thomas and Panglaykim 1973:51).

The 1949 Round Table Agreement effectively stymied government efforts to reorganise society. Lacking the ability to control the sources of national income, 'the Indonesian political leadership was virtually restricted to performing administrative and police functions' (Schmitt 1963:181). Yet, initially, few of these leaders sought to use state power to attack the privileged position of foreign investment. There was a rapid succession of cabinets led by the moderate Muslim *Masyumi* Party, the Socialist Party (PSI) and the moderate wing of the Nationalist Party (PNI). Despite the rapid turnover of cabinets, a consistently moderate policy orientation was maintained throughout these years; planners were generally content to promote development gradually, by promoting private entrepreneurship.

Two government development schemes serve to indicate the essential weakness of both private Indonesian capital and the state in the 1950s.[14] The first important development initiative of the new Republican government was the attempt to bring the economy under national control by promoting the development of an indigenous business class. In 1950 the Benteng, 'Fortress', programme was introduced by the Minister for Prosperity, Juanda. This policy restricted the importation of goods to registered indigenous merchants. Using the euphemism still common today, it was hoped that these 'economically weak groups' *(golongan ekonomi lemah)* would use this capital to branch into manufacturing. Rather than promoting a capable bourgeoisie, however, it turned out that state protection was most often extended to so-called 'briefcase importers', brokers who used their political connections to win the licence but who generally lacked business experience. Many were forced to rely on skilled capitalists, usually ethnic Chinese. A series of scandals engulfed the scheme in the mid-1950s and, after a brief attempt to revive it, Benteng was formally abandoned in 1957.[15]

A second development initiative was more obviously populist. The Economic Urgency Programme *(Program Urgensi Perekonomian)* was launched in April 1951 by Professor Sumitro Djojohadikusumo, a Dutch-trained economist who would loom large in national economic policy-making in subsequent decades. Also known as the 'Sumitro Plan', this programme proposed a number of large-scale industrial projects. The cornerstone of the plan, and its most ambitious aspect, was the attempt to increase the capacity of small-scale 'people's

industries'. Cottage industries, from leather workshops to bronze smelters, would be modernised, capital assistance made available, and certain markets restricted to indigenous producers (Glassburner 1962: 123). This plan proved unsuccessful, however, reportedly because of the 'sad state of public administration' at the time (Djojohadikusumo 1954:709). It was also abandoned in the mid-1950s.

The discrediting of the Benteng scheme and the poor results of the Economic Urgency Programme illustrate the difficulties faced by policy-makers in implementing programmes of economic change at this time. Reflecting its colonial background, the modern sector was still closely tied to the world market, and the economy had been assisted by the favourable international conditions for exporters of primary goods associated with the Korean War. The tardy implementation of both these schemes revealed, however, that the chief obstacle to economic expansion was internal, namely the critical absence of an indigenous entrepreneurial class able to manage the economy in the context of Dutch and Chinese competition. Paradoxically, given the condition of the administration at that time, a corrective began to be sought in closer state supervision.

The status of those planners involved in drafting the original 1951 scheme was increased considerably, and a new attempt at a comprehensive development scheme was presented to cabinet in 1956.[16] Although its proclaimed goals were more modest and its programme more detailed than the earlier plan, the most important feature of this essentially Keynesian plan was a call to accelerate capital formation to provide the 'big push' needed to build up a developmental momentum. As a proportion of national income, capital formation would be increased from 6 to 8 per cent by 1961; the effort to mechanise cottage industries was intensified; and, more ambitiously, state enterprises would launch a number of large industrial projects without foreign aid. Its advocates believed that only state intervention to overcome market imperfections could remove the economic distortions created during the colonial period (Higgins and Higgins 1963).

As early as the mid-1950s, therefore, discontent with economic progress led planners and politicians to rely on state corporations as the instrument for economic development. A technocratic model of development based on the realisation of particular targets took hold in important parts of the state apparatus. Although the 1956 plan did favour market mechanisms, it also showed that planners were prepared to advocate a leading role for the state in undertaking major development initiatives where an indigenous business class was lacking. State corporations would stimulate development; detailed planning and close supervision would ensure the optimum yield from these investments.

This trend became more apparent in the second half of the 1950s as nationalist economic demands gained momentum. The moderate economic orientation which had dominated became less tenable as wider sections of the political public were mobilised around issues of national sovereignty. Conflict with the former colonial power had grown more sharp, leading to the unilateral abrogation of the Round Table Agreement in 1956, the confiscation of Dutch-

owned enterprises and plantations in 1957, and the nationalisation without compensation of all Dutch property in 1958. These three events were not part of a coordinated programme of nationalisation, much less three steps on the march to socialism (Thomas and Glassburner 1965). They were nevertheless significant because they marked the state's entry into the economy on a massive scale, for the expulsion of Dutch capital created an economic vacuum which only state corporations could fill.

During the 1950s the export sector of the economy became less important, making Indonesia less dependent on fluctuations in the world economy. It has been estimated that the value of exports in net domestic product almost halved during the decade, falling from 13.2 to 7.5 per cent (Paauw 1963:183). This had a negative effect on development generally, reducing the capacity to import the raw materials and capital goods needed for industrialisation. It also hampered private activity in the modern sector, and the state assumed a greater role in the economy to fill this gap. For example, by 1959 private importers were left only 25 per cent of the market, while internal distribution was carried out by government-run shops and *kampung* cooperatives (Mackie 1967:24).

This history of economic planning in the 1950s thus marks the rise of communitarian definitions of the national interest, the key components of which were opposition to capitalism and to economic liberalism, a distrust of foreign capital, and a faith in the capacity of the state to realise popular development aspirations. In the early years of the Republic it had been expected that the disappearance of colonial restraints would pave the way for rapid economic development, and that national business would generate the expertise and capital needed to drive economic expansion. *Pembangunan* was initially understood to mean both individual initiative and building national strength. But disappointment flowing from the failure to realise specific development targets led to a discrediting of economic individualism and a reliance on state institutions as the vehicle to realise national aspirations.

The legacies of the guided economy period, 1959–1965

The year 1959 was a political watershed ushering in the final dismantling of liberal democratic structures and the advent of an authoritarian political system. After regional revolts in 1956, the Armed Forces leadership had consolidated its control over its own rebellious commands; martial law was declared in March 1957 (Feith 1962:520–547). The Communist Party (PKI) had also made significant advances. After winning only 16 per cent of the vote in the 1955 general elections, in regional elections in 1957 it emerged as the major party in Central Java, eclipsing the Nationalist Party (PNI) (Mortimer 1974:66). Many were predicting that Indonesia would be ruled by the world's first Marxist regime to come to power via the electoral process. But the lurch towards authoritarianism in 1958–1959 was led by neither ABRI nor the PKI, but by the President himself, whose interests lay outside the liberal-democratic system within which

he had only restricted formal authority Under the slogan of 'Guided Democracy' Sukarno declared an end to the liberal democratic 'experiment', reactivated the emergency constitution of 1945, replaced cabinet authority with presidential rule, and replaced the elected parliament with his own appointees, who entered a '*Gotong-Royong* Parliament' (Cribb 1992:125).

Guided Democracy also ushered in the 'Guided Economy', a period when the economy was even more subject to state directive. The 1959– 1965 period has now entered the official version of Indonesian history as a time of political chaos and economic collapse. For our purposes, its importance was that a number of development orientations became imbedded within the state apparatus.

One such orientation was a stronger commitment to state-led industrialisation. The technocrats who had designed the 1951 and 1956 plans were increasingly isolated, while the political figures who previously exercised a moderating influence on economic policy were largely shut out of the planning process (Glassburner, 1978:29–31). A number of political leaders were removed from the political scene altogether. Sumitro, for example, had sided with a rebel government in West Sumatra in 1957, and he fled the country after the rebellion was quashed by the Armed Forces leadership. His political organisation, the Socialist Party (*Partai Sosialis Indonesia,* PSI), was later banned in 1961.

The removal from decision-making circles of such politicians and the concentration of political power around the President had a critical effect on the economy, paving the way for deeper state intervention to promote industrial autarchy. In Sukarno's version of socialism, his *'Socialisme-a-la-Indonesia',* increasing amounts of nationalist rhetoric were directed towards economic transformation through industrialisation. Sukarno himself paid little attention to economic policy *per se,* and took pride in his disregard for the more prosaic aspects of development planning. But his political agitation established a new discourse on development aspirations. In his 1959 Presidential Address Sukarno stressed that only the existence of an integrated industrial economy could make Indonesia self-reliant, and the following year he declared that self-reliance would remain an empty slogan without state promotion of heavy industry. Plans were drawn up for a number of massive, Soviet-style industrial developments, including the large Asahan hydroelectric scheme in Sumatra and the Krakatau steel mill in West Java. Work on these projects was begun using credit and expertise from Soviet Bloc countries—although it was not until the 1980s that they were finally completed.

A second legacy of the Guided Economy period was that important parts of the state also became committed to populist development policies. The social justice objective had been seminal to the birth of the national consciousness, and in the 1950s had been promoted by important intellectuals. Vice-President Mohammad Hatta, for example, had played a major role in popularising this orientation, campaigning to make cooperatives the instrument to bring the economy under national control. People's cooperatives were to be one of three pillars in the national economy, along with state corporations and the private

sector. The cooperatives movement has never come near to fulfilling these aspirations, and Hatta's political influence shrank sharply after he resigned as Vice-President in 1956. But such campaigning had had a profound ideological impact, reinforcing the social justice elements in the *Pancasila* and the 1945 Constitution.

Under the Guided Economy it was increasingly the state which took up the cudgels on behalf of economic populism. Sukarno made particular political capital from Article 33 of the 1945 Constitution, which emphasises the importance of the state in promoting economic justice. The debate on the interpretation of key economic passages in the Constitution actually began soon after its proclamation, when proponents of state intervention were aided, as later, by the ambiguity of several key terms. There were long debates over whether, for example, *menguasai* implied 'ownership' or 'control' of the important sectors (Sutter 1959:275–278). After 1959 Article 33—the most important part of the Constitution dealing with economic matters—was reinterpreted to give the state a direct role in the economy, minimising private sector influence (Paauw 1963: 217).

As the political leadership became more collectivist in orientation, cooperatives became an important tool for economic management. The Communist Party (PKI), for example, had been highly critical of Hatta's espousal of cooperatives as the instrument for building Indonesian socialism. But by 1959 it too was proposing that cooperatives be used to improve the welfare of the masses (Mortimer 1974:260–261). In 1959 and 1960 a campaign was begun to promote cooperatives to realise Article 33, and it was decreed that a nation-wide system of rural cooperatives would be established. In 1960 a government regulation provided for the creation of 'enterprise councils' *(dewan perusahaan)* in all industries, beginning with workers in state enterprises. Cooperatives had become the most important ideological instrument for building Indonesian socialism.

In 1959 a new National Planning Board (*Dewan Perancang Nasional*—DEPERNAS) was established, and the technocrats' 1956 Five-Year Plan was replaced by Depernas's own ambitious 1961 'Eight-Year Overall Development Plan', Indonesia's third attempt to design a comprehensive development programme. This was an essentially populist development strategy consisting of 335 projects to promote public welfare and production of basic needs, *sandang pangan*. In 1963 these populist goals were themselves absorbed under Sukarno's 'Economic Declaration' (DEKON, *'Deklarasi Ekonomi'*), according to which the present capitalist phase of development would usher in a second stage, leading to *pembangunan* in its full sense. In the second, socialist, phase 'each and every person would be ensured work, food and clothing, and housing, together with a proper cultural and spiritual life' (cited in Tan 1967:37).

By the early 1960s the popular understanding of *pembangunan* had thus come full circle. Born of a desire to build national greatness, the word had been associated during the independence struggle with a vision of the just and

prosperous society of the future. In the early years of independence the need to rely on foreign investment and a general faith in market forces led to a scaling back of development aspirations; *pembangunan* then implied the gradual process of economic expansion. But during the 1950s, and especially under the Guided Economy, the term once again came to imply the creation of a new society. The popular understanding of 'the nation' had been conflated into that of 'the state', and this populist definition of the national interest would form a constant backdrop to economic policymaking in the following decades.

The third, and perhaps most important legacy of the Guided Economy, is associated with the state's inability to realise these populist aspirations. Strident nationalist proclamations scarcely served to obscure an increasingly erratic process of policy formulation (Tan 1967:34–40). The 1961 Eight-Year Plan, for example, was essentially a long *desiderata* of development projects, with little thought given to how they would be achieved. And before significant progress was possible, in 1964 Sukarno announced a complete reversal of economic policy under the banner of *Berdikari,* 'standing on our own two feet'. The Eight-Year Plan was shelved, foreign capital completely excluded, and a heavier emphasis placed on import substitution undertaken by state corporations.

This rhetorical stress on the sovereignty of the Indonesian state also served to mask its essential weakness. It was decreed that all private enterprise would be regulated by state agencies, and a number of corporatist organisations were established to coordinate the business sector. This was accompanied, however, by a greater dependence on national capital for policy implementation. State-business relations in the final years of the Guided Economy became even more personalised, with personal connections, *'koneksi',* becoming crucial for business success. While patrimonial ties between politicians and business people had been prevalent at least since the early 1950s, they were now made with senior officials of the state—a phenomenon demonstrated graphically by the handful of 'palace millionaires' clustered around the President.[17]

One important consequence of this erratic planning process was economic stagnation. Inflation soared, reaching a level of 600 per cent in 1966. Production of even simple manufactures slumped, and the supply of basic goods became extremely uncertain as the economy declined (Thomas and Panglaykim 1973; Mackie 1967).

A further effect of the capricious planning processes and desperate state of the economy in the final years of Sukarno's regime was the impact on economic thinking, an impact which continues to influence economic thinking today. First, government officials were haunted by the fear of inflation, and for a number of years following the change of regime the government was preoccupied with the effort to rein in government spending. Second, the failure of policies aimed at creating economic autarchy discredited the 'go it alone' approach favoured by more nationalistic political forces; in the future concerted efforts would be made to attract foreign investors. Finally, planners placed greater emphasis on policy implementation and had grown distrustful of hyperbole. Indeed, Sukarno's

favoured term for prestige projects, *mercu suar,* 'beacon', has now entered the language as a derisory term carrying implications more akin to 'white elephant'; pragmatism was now the watchword. This final legacy of the Guided Economy period, therefore, was the commitment in important parts of the state and amongst a section of the political public to open up the economy and promote development through integration with the international economy.

Economic achievements and development controversies under the new order

The Guided Democracy was finally brought to an end by ructions within the Armed Forces, triggering events which overshadowed the financial difficulties and half-hearted development efforts that characterised the early 1960s. Leftist junior military officers attempted to stage a *coup d'état* on 30 September 1965. In the confusion that ensued, Major-General Soeharto, commander of the Army's Strategic Reserve (KOSTRAD), was able to secure control of the Jakarta region and soon command of the Armed Forces as a whole.[18] In March 1966 Sukarno was obliged to surrender effective presidential authority to Soeharto, and in the following months the precarious coalition held together by his personal rule crumbled, to be replaced by the army-led coalition of the 'New Order'.

The original economic orientation of the new regime was not simply a matter of policy choice, but was chiefly determined by a combination of structural and social pressures. When he officially became Acting President in 1967 Soeharto's political constituency largely consisted of middle-class groups whose interests had been most disadvantaged under the previous regime. Amongst them were domestic and foreign business groups, who feared a return to the populism of Guided Democracy, certain student organisations backed by the military that feared the growing influence of communism, a range of liberal-minded artists and intellectuals who had suffered from attempts to stifle dissent, and Muslims, especially landowners, who had felt threatened by the large-scale mobilisation of workers and peasants. Soeharto made it clear that he would give priority to restoring economic stability, and, in the eyes of this coalition of interests, the new regime's legitimacy depended on realising the promise of economic development.

This promise relied, in turn, on continued foreign aid and investment. The dominant strand of economic thinking was now represented by economists in a new agency, BAPPENAS (*Badan Perencanaan Pembangunan Nasional,* 'National Development Planning Agency').[19] These technocrats, many of whom had previously studied in the United States under a Ford Foundation programme, shared a general faith in market mechanisms and a strong distrust of state intervention such as had occurred under the Guided Economy (Robison 1986: 108–111). However, their personal views were less important considerations than the debt-ridden economy they had inherited. Aid donors and foreign investors wanted tangible evidence of a new policy orientation: signs that inflation was

being curbed; reassurances that market forces would be able to operate unhindered; and guarantees that foreign property did not face nationalisation in the near future. These concerns were heightened by the regional context and the determination of donor governments that Indonesia not 'fall' to the anti-capitalist forces they were struggling against in Indo-China. In these circumstances, state planners had little option but to relax state controls and open up the economy as much as possible. The political leadership adopted the same pragmatic and open-door approach to the economy that had characterised the early years of independence, albeit in a very different social context.

In the following three decades the strategy of international integration set in train by these technocrats fundamentally transformed the economy. Largely due to an inflow of foreign aid, the immediate rehabilitation effort was complete by 1968. Investment increased after 1969, especially after an increase in oil revenues in 1971/72 became a veritable flood in 1973/74.[20] Indonesia then entered a period of sustained economic growth which, by and large, has continued to the present. This process has not been without its deviations, and there have been a number of surges, troughs and retreats in this development story. Economic growth has also been accompanied by political controversies, occasionally erupting in direct protest against state development plans. But by most criteria remarkable economic progress has taken place.

A number of indicators illustrate this economic transformation. First, levels of both foreign and domestic investment have risen many times over. A Foreign Investment Act promulgated in 1967 was followed by a Domestic Investment Act in 1968, making it clear that the government was intent on creating a favourable investment climate for capitalist development. As the economy stabilised and showed signs of growth, business began to invest more heavily Foreign investment increased gradually before rising sharply in the mid-1970s and in the early 1980s; it has surged again since 1988.[21] Domestic investment has also risen at a comparable rate.

Second, this increased investment fuelled the country's material expansion. In 1965, Indonesia was one of the world's poorest nations, with negative growth and per capita income of only US$190 (H.Hill 1994: Table 2.1). Over the following 25 years the economy grew at an average annual rate of 4.5 per cent, and by 1994 average per capita income had reached US$740, placing Indonesia in the ranks of the middle-income countries (World Bank 1995: Table 1).

> Indonesia has experienced its first period of sustained economic growth, which, while it may not have matched the very high growth rates of the Asian 'tigers', has been one of the best of all Third World countries.
>
> (Hill and Mackie 1994:xxv)

Third, this expansion has been accompanied by a significant structural transformation. Within the agricultural sector, the major success has been in rice production, taking Indonesia from being the world's largest importer of rice in the

late 1970s to self-sufficiency in 1985; it has broadly maintained this achievement since then (H.Hill 1994:72). Production of a range of other crops to supplement rice has also increased, albeit not as rapidly as some had hoped. The most notable shift in the economy's structure, however, has taken place with the expansion of sectors other than agriculture. Manufacturing rose from 8 to 20 per cent of GDP between 1966 and 1990, and in 1991 the value of manufacturing output exceeded that of agricultural output for the first time. The services sector has also grown rapidly, especially since the early 1980s, when tourism and banking emerged as two of the most vibrant sectors of the economy (H.Hill 1994: 84–87). The expansion of non-agricultural sectors has meant that the share of GDP accounted for by the agricultural sector has fallen steadily, from 50 per cent in the mid-1960s to 22 per cent in 1990 (H.Hill 1994: Table 2.1). This internal economic transformation has led the World Bank to classify Indonesia as a Newly Industrialising Economy (NIE), one of only a handful of Asian economies to achieve this status in recent decades.[22]

Finally, Indonesia has also realised many of the social development goals dating from the independence movement. Primary education has become almost universal, and by 1990 literacy ranged between 80 per cent for those over fifty years of age to 100 per cent for those under twenty-five (Jones 1994: Fig. 3.4). Indonesia's family planning programme has also won widespread approval, and has gone far to ease demographic pressures (Hull 1994). Indonesia's infant mortality rate nearly halved between the 1960s and late 1980s, although it remains greater than that of its Asian neighbours (Hull 1994:139– 140). It is thus undeniable that, by most social indicators, considerable progress has been made.

This economic transformation does not mean, however, that Indonesia's recent development has been linear and unproblematic. The most persistent controversies dogging policy-makers during these decades have involved issues of social justice, with criticism focusing on the extent of poverty. The evidence is not clear-cut. The government claims that absolute poverty has fallen consistently, and there is much supportive evidence. Both the number and percentage of Indonesians living in poverty fell by half between the mid-1970s and 1990 (H.Hill 1994:139–140). Two economists note that the incidence of poverty continued to decline thereafter, at least until 1993. But they also record that there is evidence that the wealthy have benefited disproportionately from recent economic expansion, and that there are greater disparities in the distribution of wealth (Pangestu and Azis 1994:32).[23] Within Indonesia, there is certainly a strong perception that the distribution of income has become less equitable in recent years.

Whatever its accuracy, it is this common perception of a growing gap between rich and poor which is most relevant for this study, for it indicates that social expectations have risen over the last three decades and that there is now a more widespread expectation that *pembangunan* should benefit society at large. It is this expectation which energises the development debate within Indonesia, and maintains the focus on issues of social justice. What strategy should be employed

to reduce unemployment and underemployment? Should labour-intensive production, for example, be favoured over capital- and technology-intensive techniques? And how is Indonesia to find employment opportunities for the millions of new entrants to the labour force each year? A related controversy concerns the sectoral distribution of state resources, and whether priority should be given to agriculture or to a small but growing industrial sector. Supporters of infant industry arguments have argued for state protection on the basis of future potential or strategic importance, while those supporting an 'agriculture first' approach feel that it is more important to expand sectors which provide a livelihood for the great mass of the population. And what proportion of the development budget should be allocated to improving the infrastructure, and what to subsidising basic needs?

Controversies over such issues have enlivened policy debates for three decades, and constitute the daily fare of policy discussions and press commentary on economic issues. These debates have inevitably been highly politicised, for they have essentially involved questions about the meaning of development and the economic role of the state. What social goals should be given priority, and how should they be achieved? Is economic equity more important than the efficient allocation of resources? Should the government provide protection to 'economically weak' indigenous traders, for example, or should assistance be reserved for the large corporations best able to compete on the international stage? Rarely do decisions come down to such stark choices, and policy-makers are always faced with a range of possibilities; the policy outcome is a compromise between conflicting imperatives.

This collection of writings will show how Indonesians have dealt with such questions, tracing the evolution of economic ideas and recording the views of various participants in development debates. It is not our purpose to describe the appropriateness or otherwise of particular policy choices, but to examine the extent to which the economic ideas shaping policy have changed since 1966.

An analytical approach to economic thought under the New Order

We have seen that by the time the New Order regime came to power, three definitions of the national interest had been introduced into development debates. First, political mobilisation before and after independence established an ingrained commitment to economic populism and a highly politicised definition of *pembangunan* within significant sections of state and society. The harsh terms of the 1949 Round Table Agreement made this orientation untenable, however, and the cabinets of the early 1950s adopted a gradualist approach to economic development. With their pragmatic attitude to the economy, advocates of this second orientation were generally prepared to work for the goals of indigenism and growth gradually, from within a system dominated by foreign capital. This integrationist approach was itself eclipsed by a third orientation from the middle

of the 1950s, as proponents of economic nationalism were able to take advantage of the widespread frustration that followed the failure to meet development aspirations. Disenchantment with the efforts of private capital led to an increasing reliance on the state, and influential parts of the apparatus became committed to achieving specified development objectives under close political coordination.

These changes did not involve paradigm shifts in the sense that the economic ideas generally entertained by planners changed, as one orientation replaced another. Rather, different orientations were maintained simultaneously by different political forces. It is significant that since 1966 participants in development debates have sought legitimacy for their suggestions in historical precedents, lending these debates a strong sense of continuity. There has thus been a tendency for particular orientations to reproduce themselves, and the political ideals established in the early decades of independence continue to influence policy debates, as this collection attests. All three streams of economic thought have established bases of support both within the state and in society, and each has struggled to win the state to its own vision of *pembangunan*.

Advocates of these perspectives have, however, presented their views under changing economic conditions, which have either hindered or favoured each of these approaches. The period since 1966 can be divided into three phases which have presented different economic and political problems. The first was: the phase of economic reconstruction, when the economic environment favoured a more pragmatic and market-oriented approach to development The major issue dominating policy debates at this time was: how should Indonesia reintegrate into the world economy? On what terms, for example, should foreign and ethnic Chinese Indonesian capital be encouraged to invest? What level of protection should be given to local capital, and in which sectors?

The 'oil boom' years of 1974–1982 constituted a second phase, a time when debates revolved around the effort to create a strong and self-reliant national economy. This aspiration was made possible by the influx of oil revenues following the two-stage rise in international oil prices in 1973/74 and 1978/79. The value of Indonesia's oil and gas exports trebled between 1969 and 1974, trebled again in 1975, and had trebled once more by 1981.[24] The share of state revenue accounted for by oil and gas exports rose correspondingly, from less than 20 per cent in 1969/70 to over 60 per cent in 1980/81 (Robison 1986:171). State coffers were virtually awash with funds, and a range of new policy questions confronted state planners. How should this new wealth be used? What priority should be given to building economic self-reliance? How should the new wealth be distributed?

A third phase dates from the two-stage fall in oil revenues in the early and mid-1980s, and the sharp decline in state revenues that resulted.[25] This had a profound influence on the direction of economic policy, for the state was no longer able to finance the massive development programmes of the 1970s which came to depend instead on external sources of capital. These conditions favoured

advocates of economic deregulation and a more free-market approach. During this current phase, debate has revolved around how Indonesia might take advantage of this new situation—or at least reduce its negative effects. What role can the market play in achieving national development goals? Is there still a place for state-led development schemes? Will economic liberalisation increase social inequalities? Do these conditions make the historical commitment to egalitarianism less relevant? Will economic liberalism favour the large corporations, most of which are owned by ethnic Chinese Indonesians? (The issue of Chinese-indigenous relations and its historical significance is dealt with separately, in Chapter 9).

Each of these phases presented new questions which were answered in different ways by the different schools of economic thought. It is the elements of continuity and change within these streams which constitute the organising principles of this collection. To preface the argument developed here, we propose that these streams of economic thinking have been sustained by particular political constituencies. In order to locate the following discussion, at this point it is useful to critically examine two alternative approaches to policy-making in the Indonesian political economy. A later section will consider how these ideas have changed with Indonesia's recent economic transformation.

The most common perspective on Indonesia's recent economic history is of a process essentially planned and directed by the state. Government statements affirm that the economic collapse of the mid-1960s underscored the importance of careful planning, and that it has been the continual remoulding of the policy environment ever since that is responsible for subsequent rapid development. On this view, state agencies implemented the plans of the leadership, as an initial focus on rehabilitation and agricultural production gave way to the development of light industries, the production of more sophisticated technologies and, more recently, to the expansion of service industries. Many foreign observers adopt a similar perspective, emphasising the importance of effective economic management in accounting for Indonesia's recent economic success. The essential recipe is one in which the government has got its policies "right" more often than it has not, and has displayed political will to take tough and unpopular decisions when necessary' (H.Hill 1994:55). Within this discourse, it is thus the rule of an enlightened political leadership that has drawn Indonesia away from its colonial legacy and closer to achieving the status of a Newly Industrialising Economy.

Perhaps the most convincing case in support of the argument for the determinative role of the political elite is made by William Liddle, who describes the early years of the New Order as the formative period in economic policy-making. At this time, there was still a lingering predisposition to maintain the statist and nationalist policies of the Guided Economy. But this was counterbalanced by political forces urging that the economy be opened up to new investment. In a situation in which there was no clear policy consensus, Liddle suggests, Soeharto's own preferences became critical. His sharp political

instincts led him to rely on the advice of the technocrats, and a policy coalition was built around policies to encourage foreign investment.[26]

The success of this formula lent itself to repetition, and, for Liddle, economic policy-making has remained essentially the outcome of negotiations within the apparatus, with Soeharto as the *primus inter pares* determining broad policy directions and forging supportive political coalitions. He acknowledges that non-state groups can influence policy processes, often in decisive ways. Policies have been altered in response to pressure from groups ranging from farmers, producers and urban consumers to parliamentarians, intellectuals and journalists. But such pressure is only effective when supported from within the apparatus (Liddle 1987:143). Soeharto has at times supported economic nationalists within the cabinet and bureaucracy, especially during the oil boom years. But his political dexterity has generally led him to calculate that his political interests will be best served by maintaining the outward-oriented and pro-market policies of the technocrats. In this essentially instrumentalist perspective, the most important variable determining whether Indonesia continues to approach the status of an NIE is whether the political leadership will continue to support the liberal-minded technocrats against their opponents within the state apparatus (Liddle 1991:425).

Such observations on the importance of political choice remind us that there is no direct link between economic forces and the policies decision-makers eventually adopt. We can also accept that the involvement of political leaders may be decisive at certain junctures, and that once a choice is made between difficult policy options it can set a precedent that will be repeated. But the need to build a coalition to support a particular orientation severely qualifies the autonomy of the political leadership in determining development policy In 1966, for example, it was the structural crisis itself which critically weakened the political influence of advocates of economic *dirigisme*.[27] And the influx of oil revenues in the mid-1970s, and the boost that it gave to the ambitions of state officials, made it highly unlikely that Soeharto could build anything other than a 'nationalist' policy coalition promoting state development projects. Leaders filter a range of pressures when weighing up policy alternatives and possible outcomes, judgements which may be shaped by other, more fundamental, variables. What we need, therefore, is an approach which can account for the changing social environment in which planners operate and the parameters delimiting policy options.

One scholar who takes us closer to establishing such parameters is Richard Robison, who uses a marriage of statist and economic structuralist approaches.[28] He notes that statist ideologies are strong in Indonesia, as in the other countries of the East Asian region, and finds that this largely accounts for the readiness of political leaders to intervene in the economy. However, in the early years of the New Order, a 'pact of domination' was formed between government leaders and certain social forces, notably a weak domestic bourgeoisie. In the following decades a combination of state protection and market-oriented macroeconomic

policies conducive to growth led to the phenomenal expansion of these corporate groups. It can therefore no longer be assumed that the economy will continue to be dominated by state officials (Robison 1988:65).

For Robison, economic policy is thus formulated in the conjuncture between 'state interests' inherited from Indonesia's nationalist past and the structural demands of this emerging bourgeoisie. As this expanding capitalist class draws on the power of international capital, he suggests, structural requirements for the regularisation of state-business relations are felt ever more strongly Whether Indonesia will continue to evolve in the direction of the other NIEs—economies in which the state is subject to the structural discipline of capital—therefore involves variables that go beyond the instrumental influence of particular business or government figures; it 'depends largely upon the conjuncture of state action and the configuration of social and economic power, thus bringing us back to the ultimate conditioning role of structural factors' (Robison 1988:55).

Yet neither is this structuralist approach entirely sufficient for our purposes, because it fails to capture the extent to which policy choices are themselves shaped by past traditions. A structuralist approach cannot fully explain how these schools of thought have persisted, for they cannot be reduced to only a state interest inherited from the past or a response to structural economic forces. This is most evident in the case of economic populism, which has occasionally been able to gain state support but has generally survived as a form of political protest, without access to either state resources or the power of capital. The other traditions have also survived periods when they were pushed into the background but have resurfaced under different economic circumstances.

The evolution of policy has also been heavily influenced by individual leaders and ministers, particularly President Soeharto, who has on a number of occasions skilfully woven together a number of policy threads to support policy initiatives. Soeharto and other leaders have almost invariably sought to legitimise economic policy changes by appealing to tradition, appeals which may be seen as the political manipulation of cultural symbols. But there is also a reverse flow in that these traditions set limits to what is politically possible, while shaping the concerns of state leaders. The appeals to past traditions to legitimise policies suggest that it is appropriate to start our investigation by looking at those traditions themselves.

The approach used here takes these traditions as a starting point, describing how they have adapted to social, political and economic changes. It assumes that the ideas which have influenced policy-making possess a degree of autonomy from both instrumental political influences and economic structures. Clearly, neither factor can be ignored. Political leaders play a critical role in shaping development strategy by choosing one policy over others. At the same time, the economic environment will favour particular options and exclude others. But neither political will nor economic structures is determinative of policy, which is subject to a range of influences.

This begs the question, of course, who are the agents for the transmission of these ideas? It is in this context that we use Feith's concept of the 'political public'.[29] As noted at the outset, this category extends beyond the political elite of senior state officials and politicians to include a broad, mainly urban, middle class. The defining characteristic of this social category is its regular consumption of the printed media and an awareness of both the national and international developments. Although ministers and senior state officials are the most important single community for development debates, participants also include a diverse range of social commentators, politicians and business people. It is their involvement which has preserved these intellectual traditions.

Three streams of economic thought

A glance at the Contents section will show that we have divided the contributions to this collection according to the three phases which have become the common method for periodising the political economy of the New Order era. During the first phase of rehabilitation and reconstruction (1969–1974) there were only two recognisable schools of economic thought—namely, that supported by the technocrats, who favoured state intervention to promote economic development, and that of a rather inchoate group of critics who favoured state intervention in the name of social justice,

The reconstitution of the three streams of thought generated prior to 1966 effectively dates from the early 1970s. At this time, and until quite recently, the dominant set of economic ideas is what we have called the 'statist-nationalist' stream of thought. It is nationalist because this stream invariably justifies economic initiatives in terms of the struggle to build national strength. It is statist because its central components are notions of unity and hierarchy, providing an essential role for a corporatist state intervening to marshal social forces around the development effort. This stream of thought resonates with the organicist tradition in Indonesian thinking, and harks back to the notion of *pembangunan* as one component in the struggle for building national sovereignty.

As we have seen, the statist-nationalist stream of thought was first clearly enunciated by technocratic planners in the 1950s and taken up most vigorously in the early 1960s. Their ideas re-emerged in the New Order period, initially somewhat hesitantly, but more and more forcefully as the economy recovered. Drawing on the organic statism of Sukarno and the state-led development aspirations of the Guided Economy period, its most important advocates are undoubtedly senior government officials who have been able to utilise their access to state resources to finance their policy preferences. Yet it is important to note that this stream of thought is not limited to government ministers. Certain well-connected intellectuals played a crucial role in popularising statist-nationalist policy proposals during the oil boom years of the 1970s and early 1980s.

A second and increasingly important stream of development thinking in Indonesia is that of economic liberalism. Its advocates certainly support greater latitude for market forces; the distinctive characteristic of this stream of thought is the belief that the market is the most effective means for marshalling economic resources. In the Indonesian context, advocates of economic liberalism are by no means doctrinaire free-marketeers, but support certain forms of political controls. They envisage that the state will intervene, decisively if necessary, to substitute for a weak business class or maintain a strong regulatory regime.

While this stream of thought recalls the pro-business definition of *pembangunan* supported by the cabinets of the early 1950s, it has only a weak political tradition on which to draw. There were economic liberals in the past, such as Sjafruddin Prawiranegara, a cabinet minister from the Muslim 'Masyumi' party in the early 1950s and, during the 1970s, Governor of the Central Bank. But while Masyumi and Socialist Party (PSI) politicians were supportive of this orientation during the early years of independence, as we have seen, they were unable to halt the lurch towards economic nationalism in the 1950s. This school effectively disappeared from public policy debates during the Guided Economy period. Since then, its fortunes have been a mirror image of those of statist-nationalism. Its appeal has been greatest during times of economic hardship, weakest during times of economic expansion. In the early years of the New Order, for example, economic liberalism had some appeal, as new solutions were sought to the economic problems then faced. Some of the New Order technocrats favoured a similar approach to the more liberal ministers of the early 1950s (Rice 1983). But the prominence of this stream of thought faded with the economic expansion of the oil boom era. One consequence of this weak tradition in economic thinking is that, until recently, its most forceful political advocates were foreign agencies, as is evident from a glance at the contributions to Chapter 4.

Since the economic downturn of the mid-1980s economic liberalism has gained a new legitimacy in economic debates. It has some prominent proponents in state circles, most notably within the financial departments. Its influence has also intruded into departments which were formerly bastions of statist-nationalism —notably the Department of Industry. This orientation has also developed an important constituency within sections of the media, academia and other middle-class groupings. In short, there are unmistakable signs that economic liberalism is in the midst of developing an ideological tradition that is challenging statist-nationalism, with considerable success.

The third stream of development thinking, and that with the longest intellectual pedigree, is economic populism. Its vision of *pembangunan* is of a general improvement in mass welfare through grassroots, 'bottom-up', development policies to promote national strength. This stream of thought retains widespread ideological legitimacy, for it draws on the Constitution and those parts of the *Pancasila* which hark back to the egalitarian ethos of the nationalist movement. Although statist-nationalism also refers to Article 33, the populist stream of

economic thought places special emphasis on the themes of indigenism, the promotion of small-scale enterprise and the cooperatives movement.

Economic populism is in fact the weakest of our three streams of thought within the state. It does have advocates in certain departments and institutions, such as parliament and the Supreme Advisory Council (DPA). The fact that the government has consistently sought legitimacy in populist terms—with frequent reference to Article 33 of the 1945 Constitution and the importance of the cooperatives movement—has almost certainly reinforced the validity of populist development goals in the eyes of the political public. But while statistnationalists have been able to buttress their arguments by drawing directly on state resources, and whereas economic liberals have gained support from state officials who recognise the growing importance of the market, supporters of economic populism have had few powerful advocates within the political elite. Indeed, the very weakness of institutions such as parliament and the Supreme Advisory Council compounds their problems.

The most important constituency for economic populism lies outside the state. Populism was an important component in the emergence of the nationalist movement, when, it will be recalled, it was associated with 'organicist' critiques of liberalism. Students, NGO activists and other critics have at various times since called on the ideas associated with Indonesia's nationalist past and the 1945 Constitution to present alternative development proposals. Today's populists commonly legitimise their suggestions by reference to these aspirations. In other words, populist developmentalism may be considered a counter-ideology, available for reappropriation by critics of both statist-nationalism and economic liberalism.

Ideological and economic change in contemporary Indonesia

This retreat of statist-nationalism as the dominant development discourse and the apparent rise of alternative perspectives raise important questions about the link between ideological transformation and structural economic change. It is the view of some that the global shift of industries to Southeast Asia is creating domestic conditions conducive to policies favouring structural adjustment The World Bank remains an important adviser to the government, and its influence over loan allocations gives it considerable weight in government deliberations. Its advice that Indonesia should continue to implement policies of structural adjustment to take advantage of this shift of industrial activity has undoubtedly been influential, and the more liberal-minded planners do generally have greater say in economic policy-making. Does this combination of structural and instrumental influences therefore presage a gradual shift towards economic liberalism as the accepted orientation to development issues in Indonesia, as many have suggested?

Exogenous economic factors have undoubtedly been the major consideration in the minds of economic policy makers since the mid-1980s, and have presented both challenges and opportunities to proponents of different streams of thought. The other Asian NIEs experienced severe political tensions over development policy during their period of expansion, and in Indonesia the debates over economic policy became particularly intense after the mid-1980s. The fall in oil prices was a heavy blow for the statist-nationalists, one which simultaneously improved the stocks of economic liberals. In a carefully argued piece, Andrew MacIntyre (1992) notes that this fall was the single most important factor behind the policy reorientation of the mid- 1980s, reinforcing the arguments of those supporting deregulation and economic liberalisation. He goes on to suggest that increasing business influence over state policy and a greater official tolerance for capitalist activity have created a more propitious environment for economic liberalism within Indonesia.

Such a shift in economic thinking is by no means assured, however, for the development debate in Indonesia has always involved a tension between exogenous forces and domestic political priorities, as this Introduction has attempted to show. The evolution of development thinking since 1966 has been as much an expression of historically-derived goals as it has been a process of adapting to economic forces. Part III of this collection demonstrates that each of the three schools of thought has adapted to the economic changes of the 1990s, but has done so in terms of its own ideological tradition.

The deepening involvement of the political public in these debates has injected a greater degree of uncertainty into future policy directions, for public policy is increasingly a reflection of a changing political culture. The New Order ideology of *pembangunan* is perhaps the epitome of the statist-political culture which has dominated political processes until recently.[30] However, it is becoming increasingly difficult for this political culture to incorporate conceptual alternatives within the paradigm of a state-dominated political economy. This political culture is challenged, first, by proponents of ideas associated with Indonesia's pre-colonial and nationalist past, particularly notions of village democracy and the populism of the independence struggle. In the area of development policy, ideas associated with Article 33 of the 1945 Constitution are always available for reappropriation by critics of the current political order, and the populist critique has persisted into the 1990s. Second, the creeping acceptance of ideas associated with economic liberalism indicates that this stream of economic thought is also presenting a more powerful challenge to statist-nationalism. A broad group of intellectuals, bureaucrats, media workers and leaders of political parties are advocating further deregulation, and their ever-more confident advocacy suggests that this stream of thought is in the process of developing a new tradition on which its proponents can draw.[31]

We should be cautious, however, in predicting that economic liberalism will triumph in development policy debates, even should conducive economic conditions persist. While economic liberals have been pushing for more rapid

deregulation, statist-nationalists continue to argue that the state must promote strategic sectors of the economy to ensure national self-reliance. Opposing these two streams of thought, non-state populists have continued to urge a policy reorientation more in keeping with the egalitarian ideals espoused by the nationalist revolutionary movement of the past. With these three streams of thought competing for influence, there is correspondingly less certainty about the future direction of Indonesia's development policy This uncertainty is all the greater with the likely replacement of President Soeharto in the near future, bringing with it the possibility of fundamental political change.

Finally, it needs to be emphasised that no single stream has a monopoly on the term 'nationalism', for advocates of each stream seek to present their policy proposals in terms of advancing the national interest. Certainly, state officials often claim that they can best represent the interests of the community as a whole, and the recent hegemony of statist-nationalism in official statements reflects the proximity of its proponents to important state institutions. However, the 'national interest' is a highly contested concept in all countries, and Indonesia is no exception. As we have seen, economic populism has the longest-standing claim to the nationalist mantle, and its advocates in the 1990s continue to summon up symbols from the past. And while economic liberalism cannot draw on such a long historical tradition, its growing public acceptance amongst middle-class groups indicates that it too is in the process of creating a 'nationalist' rationale.

NOTES

1 These five principles are: One God, Nationalism, Humanity, Democracy and Social Justice. Sukarno's extempore speech in which he first publicly enunciated the *Pancasila* is reproduced by Feith and Castles (1970:40–49). A slightly altered version of the *Pancasila* was subsequently included in the preamble to the 1945 Constitution, namely: Belief in One Deity; Just and Civilised Humanity; the Unity of Indonesia; a People Guided by Wise and Representative Government; and Social Justice for All Indonesians. Reeve (1985:65–75) outlines the debates on the *Pancasila* in the 1940s, and describes the 'organicist' Western intellectual heritage on which they drew.

2 For example, in a 1932 article entitled *Politik dan Ekonomi* (Politics and the Economy), Hatta uses the terms *memajukan ekonomi* (promote the economy) and *memperbaiki ekonomi rakyat* (improve the people's economy) to refer to what he would later call *pembangunan.* This article, first published in *Daulat Rakyat* no. 36, 10 September 1932, is reprinted in Hatta (1953:178–180).

3 Sutter (1959:121–130) describes the congresses and meetings at which these politicians discussed the future development of the national economy. It is likely that the nationalist intellectual Sutan Takdir Alisyahbana played a critical part in popularising the use of *pembangunan* to express these aspirations. For example, an article published in 1939 was entitled *Pekerjaan Pembangunan Bangsa sebagai Pekerjaan Pendidikan* (Developing the People as a Task for Education) (Mihardja

1977:121–130). Indeed, Alisyahbana has been proposed as a candidate for the title 'Father of the Concept of *Pembangunan'* (Heryanto 1988:9).

4 Of the few references to developmentalism as an ideology under the New Order, see the noteworthy work of Feith (1979, 1980a, 1980b) and the previously mentioned article by Heryanto (1988).

5 *Repelita I* (1969–1974) concentrated on attracting new investment and rebuilding the economic infrastructure to meet basic needs, *Repelita II* (1974–1979) on the expansion of agriculture, *Repelita III* (1979–1984) on improving social equity and building an engineering industry, *Repelita IV* (1984–1989) on the development of heavy industry, and *Repelita V* (1989– 1994) on the development of advanced technologies in the run-up to 'economic takeoff'. A further five plans chart Indonesia's development in the 'Second Long-term Development Period' from 1994 to 2019 (Booth 1994).

6 This ideological transformation has an historical precedent. Anderson (1966:112–118) has described the 'reification' of terms like *revolusi, sosialisme* and *demokrasi* under the Sukarno regime, such that they came to refer to public morality rather than social reality 'What is socially approved is a state of mind, not a series of deeds' (Anderson 1966:113).

7 The concept of 'bashful capitalism' *(kapitalisme malu-malu)* as characteristic of economic debates prior to the 1980s is used in a newspaper article by the Indonesian sociologist Dede Oetomo (1990). A similar point is made by MacIntyre (1992:152).

8 Mackie (1980) summarises Boeke's theory of social dualism, observing how it has persisted as an explanation for economic life in Indonesia and discussing its utility.

9 As the administration later conceded, the 1941 plan was 'stimulated by the threat of war at the time' (NI 1947:61). Good summaries of the limited industrial development prior to 1945 are provided by de Neuman (1954, 1955) and Mangkusuwondo (1967:88–89, 122–125). On the development of manufacturing, see Soehoed (1967).

10 The *Sarekat Dagang Islam* was established between 1911 and 1912 on the initiative of Central Javanese *batik* cloth producers after Chinese traders had attempted to secure control of the supply of raw materials (van Niel 1960:88–92; The Siauw-Giap 1966–1967).

11 The indigenous textile industry of West Java, for example, began to mechanise (Palmer 1972:41–47), while prominent Outer Island merchants shifted into manufacturing and services (Sutter 1959:101–106).

12 The concept of the *ekonomi nasional* was used by Sukarno and the future Vice-President, Moh. Hatta, during the Japanese occupation (Sutter 1959: 125–128, 260–262); by the chairman of the Nationalist Party, Sujono Hadinoto, in a 1949 publication *Dari Ekonomi Kolonial ke Ekonomi Nasional* (Sutter 1959:638–646); and by all major political parties in the late 1940s (Kahin 1952: chapter 10).

13 David Reeve (1985) describes in some detail the ideological contests between advocates of communitarianism and individualism prior to independence. See especially pp. 25–36 and 68–71 for an elucidation of the 'communitarian' perspective. Bourchier (1991) describes the strongly authoritarian tendencies of this perspective.

14 Higgins (1957:40–53) describes the political and administrative obstacles to policy implementation in the early 1950s. Paauw (1963:214–231) provides a concise

summary of the political circumstances behind Indonesia's first three plans, namely those of 1951, 1956 and 1961. Thomas and Panglaykim (1973:39–54) focus on the 1951 plan and the Benteng programme.

15 The so-called 'Benteng' importers are most fully documented by Sutter (1959: 1017–1029). Anspach (1969:167–179) and Feith (1962:374–375) discuss the objectives of the programme and the problems faced in implementing it.

16 The best summary of the main features of the 1956 Five-Year Plan is by Higgins (1957:47–53). The New Order technocrat Mangkusuwondo (1967: 234–240) describes its partial implementation during 1956–1958.

17 The proximity of national capitalists to political power centres is described by Castles (1967) and their subsequent fate by Robison (1986:88–93).

18 There is a considerable literature, but no definitive study, on the attempt by disgruntled middle-ranking officers to seize power. Crouch (1988:97–157) provides a balanced discussion of the various perspectives on this event and its tumultuous aftermath, which claimed many hundreds of thousands of lives.

19 The most important of the New Order technocrats whose work appears in this volume and whose personal details therefore appear in the Biographical Notes are: Sumitro Djojohadikusumo, Widjojo Nitisastro, Radius Prawiro, Mohammad Sadli, Emil Salim and Ali Wardhana. Two other important technocrats not included here are Subroto (PhD, University of Indonesia, 1958; Minister of Transmigration and Cooperatives 1971–1973; Minister of Transmigration, Labour and Cooperatives 1973–1978; Minister of Mining and Energy 1978–1988; Chairman of OPEC during the late 1980s) and Johannes Sumarlin (PhD Berkeley 1964, Deputy Chairman of Bappenas 1970–1973, Minister for Rehabilitation of the State Apparatus 1974–1984, Chairman of Bappenas 1983–1988).

20 The extent of the increased oil revenues in the mid-1970s is discussed at greater length below (see Note no. 24), and the policy impact in Chapter 3.

21 The increase in foreign investment has not been linear. The value of approvals fluctuated between $100 million and $300 million between 1967 and 1972, before rising to over $1.1 billion in 1975. The figure peaked again at over $2.4 billion in 1982 and 1983, before falling once more. Since 1987 the inflow of FDI has risen fairly consistently, exceeding $10 billion in 1992 and $23 billion in 1992 (BKPM data, cited in *BIES,* various issues).

22 The 'International Bank for Reconstruction and Development' proposes that Indonesia, Malaysia and Thailand be classified as a 'second tier' of NIEs following in the wake of Singapore, Korea, Hong Kong and Taiwan (IBRD 1993).

23 The common perception within Indonesia of growing wealth disparities is critically reviewed, however, by Edmundson (1994). See also Booth (1993).

24 Income from oil and gas exports rose from US$384 million in 1969/70 and US$965 million in 1973/74 to US$5,153 million in 1974/75, before jumping to US$15,187 million in 1980/81 (Republic of Indonesia, *Nota Keuangan 1988/89:* Table IV.6).

25 In 1982 crude oil prices fell from US$38 to US$28 per barrel, and collapsed to just US$12 in 1986 (Robison 1988:66). Indonesia's foreign earnings from oil and gas fell from US$18,825 million in 1981/82 to US$14,744 million in 1982/83, and declined gradually for several years thereafter. The value of oil and gas exports in total export earnings declined correspondingly, from almost 82 per cent in 1981/82 to 67.8 per cent in 1986/87 (Robison 1990: 131).

26 This perspective on economic policy processes is put most clearly in Liddle (1991). The theoretical argument is developed in Liddle (1992). See also Liddle (1987) on how excluded groups have attempted to use ideology to change economic policy.

27 Indeed, Liddle acknowledges that the new policy orientation 'would probably not have been adopted without the crisis-induced pressure for change' (Liddle 1991: 423). Similarly, he notes that Soeharto later stepped in to discipline the economic nationalists in Pertamina because 'it became clear that Pertamina's activities threatened to bring down the whole edifice of New Order economics' (ibid.: 420).

28 Robison's major work on the Indonesian political economy is Robison (1986). See also Robison (1988, 1989).

29 The concept of a political public is outlined most succinctly in Feith (1962: 108–113). He later suggested that economic development and internationalisation had created a more aware political public, making it difficult for the regime to use developmentalism to legitimise authoritarianism (Feith 1980b).

30 The standard description of New Order ideological construction is the rather pessimistic account of Morfit (1981). A more recent formulation along these lines is that of Liddle (1988), who is also concerned with how the various elements of the national political culture are manipulated and redefined by the current political leaders.

31 The emergence of economic liberalism is suggestive of what the late Raymond Williams terms an 'emergent culture', which brings about new meanings, values, practices and relationships in a society's cultural life. It challenges the 'dominant culture', the prevailing set of beliefs which give meaning to a particular social order and its institutions—in our case statistnationalism. The populist stream of thought relates to what Williams calls the 'residual elements' in a culture, those elements that stand at some distance from the dominant culture and which are given meaning by reference to the past. The active forces in this process of creating new traditions are what Williams calls 'formations', a broad category which includes both formal institutions and intellectual movements (Williams 1977).

Part I

The phase of economic reconstruction

1
The pragmatic technocrats

INTRODUCTION

In 1966 Indonesia faced the dual spectre of a moribund economy and a state apparatus that was barely functioning. Inflation had spiralled out of control, creating a critical loss of confidence amongst both consumers and producers. Falling levels of productivity in almost all sectors of the economy had led to its virtual collapse, and there seemed little prospect that the situation would improve quickly. Finally, declining exports had created a persistent deficit in government budgets. The important consequence of this fiscal crisis was that the state had less resources with which to manage the economy. Despite a lingering impulse in sectors of the bureaucracy to issue decrees, the government found itself less and less able to 'command' the economy in the way that it had in the recent past.

During 1966 some important changes in economic thinking within official circles became evident. Following the failed coup attempt of late 1965 and its tumultuous aftermath, some ineffectual measures had been taken to restore economic stability. In December 1965 the government had recognised the need to control inflation and increase state revenues, and announced measures to reform the currency and increase taxes on petrol and public transport. The currency reforms proved ineffectual, however, while the tax increases gave rise to widespread public protests. In January 1966, in an atmosphere of mounting disquiet about worsening economic conditions, the Indonesian Student Front (KAMI) held a seminar at the University of Indonesia. This was the first public forum at which senior economic advisers openly criticised state policy. The protests which followed further undermined the legitimacy of the Sukarno regime, and played a significant part in precipitating its collapse (Arndt and Panglaykim 1966:3; Oei 1968:142).

It was also in 1966 that a policy response to the crisis took shape. After Sukarno surrendered political authority to Lieutenant-General Soeharto in March, Indonesia was ruled by a triumvirate comprising Soeharto, the wily Sumatran politician, Adam Malik, who was responsible for foreign relations, and the Sultan of Yogyakarta, Hamengkubowono IX, who was given responsibility for

economic affairs. In April the Sultan delivered a major speech in which the new tenor in official thinking on the economy became apparent. His bleak description —which appears in the contributions below—offered a particularly grim assessment of the task facing the government.

The Sultan's speech had been drafted with the help of the small group of economic advisers associated with the University of Indonesia. In the second half of 1966 these technocrats lobbied hard in public forums to convince the political leadership of the need for improved economic management, and their political influence increased in inverse proportion to the worsening inflation and debt crisis. In May a public symposium chaired by Emil Salim and Ali Wardhana and attended by all cabinet ministers was held at the University of Indonesia, where leading technocrats made caustic verbal assaults upon the economic policies of the Guided Economy.[1] In June the Provisional People's Consultative Assembly approved a statement on economic reforms proposed by five technocrats from the Faculty of Economics at the University of Indonesia—Salim, Sadli, Widjojo, Wardhana and Subroto. In August a crucial development took place. At an army seminar at the Staff and Command School (SESKOAD) in Bandung a consensus was reached to support these proposals, confirming the strengthening alliance between the technocrats and the Armed Forces. It was here that the technocrats met Soeharto, and on 3 October he announced a series of policy measures along lines proposed by the technocrats (Bresnan 1993:61–64). These technocrats became members of the 'Presidential Economic Advisory Team' chaired by Widjojo.

The following selections present the ideas of five key policy-makers involved in diagnosing the cause of the crisis and in formulating this response. These technocrats were largely Western-trained and tended to favour economic deregulation and market-oriented policies. These selections indicate, however, that they were by no means doctrinaire economic liberals, but pragmatic planners quite prepared to advocate state controls to achieve particular development goals. They recognised the need for active state intervention, partly because they possessed the technocrat's penchant for planning, partly because policy had to be justified to a political public which had experienced two decades of political mobilisation, but mostly because only the public sector had the necessary resources to stimulate economic activity.[2]

The main issues faced by the technocrats at this time were to determine the extent, form and ultimate purpose of state economic intervention. The first selection is by **Widjojo Nitisastro,** widely recognised as the most important architect of the New Order's economic policy orientation. This article is of some historical interest, for it was delivered at the January 1966 seminar at which the technocrats first publicly attacked existing political arrangements. It thus presents an early diagnosis of the perceived failures of the Sukarno regime, warning that the December 1965 policies were produced only for popular consumption and would result in a 'downward spiral' of social unrest compounded by economic decline. The selection is also significant because it is

an exposition of the ideas of a man who has rarely sought publicity, and has written remarkably little during his long career.[3] It thus provides a rare insight into the principles which have guided much of the New Order's economic policies. Exemplifying the technocrat's emphasis on planning, Widjojo makes a plea for the government to draft a long-term development plan and to devote greater attention to policy implementation. While recognising that state enterprises would still have a 'truly leading and commanding position' in the economy, the general tone of the article is to call on social forces to play a more dynamic role in economic affairs.

The second selection is taken from Sultan **Hamengkubowono IX's** famous April 1966 speech. The speech was mostly concerned with the measures to be taken to revive the economy and rebuild the economic infrastructure. But his frank recognition of the limits to the government's capacity to control the economy was a clear signal that the new regime envisaged a changed economic role for the government. 'We decline to make promises which may arouse unrealistic hopes among the people… They may become disappointed if improvements fail to come up to expectations'. Although naturally preoccupied with the economic crisis, in the last paragraph of this selection we can also detect the first whiff of the evolving ideology of developmentalism, one in which the private sector would play a greater role in shaping Indonesia's economic future.[4]

The third contribution is by **Emil Salim,** later appointed vice-chairman of BAPPENAS and a man who held numerous ministerial positions from 1971 to the early 1990s. The significance of this article is that it indicates the terms on which the technocrats proposed that Indonesia integrate into the world economy. As it makes clear, at least some of the technocrats shared the suspicion which many Indonesians viewed capitalism. Salim emphasises that the primary objective of economic planning is to overcome a colonial legacy, a capitalist system in which the poor became poorer and the 'economically strong' even more powerful. He outlines the principles of a 'Pancasila Economic System' which would counter these inegalitarian tendencies. At the same time, however, Salim warns against Indonesia following the path of the command economies of the communist world. He presents a formula which would become a commonplace amongst New Order planners, one that avoids both the uncaring economic policies of 'free-fight liberalism' and the statism of the Soviet bloc.

Throughout 1966, as the technocrats were gradually taking over management of the economy, it remained unclear what precisely would be the future role of the state in the Indonesian economy. International aid donors were urging that the state rebuild the infrastructure to encourage foreign investment, but there was continued political pressure for state intervention in the name of social justice and economic equity. An early indication of how a prominent economic role for the state would be combined with efforts to encourage private investment is provided in the fourth selection. **Mohammad Sadli** held a number of important ministerial positions in the 1960s and 1970s, and has a reputation as someone able to effectively voice the concerns of the business community within state

circles. The first part of this selection describes the background to the October 1966 measures—the dire economic conditions which he compares to the extremities of war. But whereas the causes of war are external and can be overcome by removing the aggressor, Indonesia's 'illness' was totally of its own doing. Even though the general thrust of Sadli's argument is for a relaxation of economic controls to allow market mechanisms to come into play, he outlines an essentially Keynesian programme of economic expansion once the immediate rehabilitation effort is complete. The success of this long-term programme would depend not so much upon market forces, he infers, but on the nature of state intervention; he provides a concise set of measures against which state activities should be measured.

It will be clear from these contributions that it was the immediate economic problems faced by Indonesia that were initially uppermost in the minds of the group of planners responsible for development strategy. In 1966–1967 priority was given to the effort to rein in inflation; the liberalising reforms of 1967–1968 were largely a response to the conditions demanded by foreign creditors and investors. Once the period of immediate stabilisation had passed and planners began to turn their attention to Indonesia's economic future, however, policy more closely reflected the orientation of the technocrats. There were differences amongst the technocrats, particularly over the extent to which Indonesia should continue to rely on market forces. But these differences were less important than the consensus on the need to give priority to encouraging economic growth. They envisaged that rehabilitation of the infrastructure and a concentration on economic fundamentals would lay the groundwork for increased foreign investment, industrial growth and, eventually, an expanding domestic sector.

The essential pragmatism of the technocrats lay in their choice of the means to achieve these goals. BAPPENAS *(Badan Perencanaan Pembangunan Nasional,* 'National Development Planning Agency') had been established in 1963, but only in 1967 did it become the preeminent centre for policy-formation (Cribb 1992). Initially, the BAPPENAS technocrats supported an 'open door' policy and efforts to create the conditions that would attract foreign capital. But it became evident in the first Five-Year Plan *(Repelita)* drawn up in 1968 and implemented in 1969 that the state would take a leading role in guiding the development effort. An indication of the objectives to which state intervention would be directed is provided in the final selection in this chapter, a speech in which President **Soeharto** outlines the long-term objectives of the government's development strategy. After reviewing the progress made during the period of rehabilitation from 1966 to 1968, he suggests that the primary function of the state is to preserve the common interest. The government would continue to encourage individual initiative, for development requires that people participate actively in social life free of the fear of arbitrary political control. Significantly, he indicates that the government would provide protection and assistance to the overwhelmingly indigenous small-scale sector, so that 'they can, step-by-step, play a steadily greater role as active participants in the development process'. But

neither can the government allow greed to erode social cohesion, and he suggests that the government would strike a balance between encouraging individual economic initiatives and shaping the environment in which individuals operate.

Ian Chalmers

Widjojo Nitisastro (1966)
THESE IMPRUDENT ECONOMIC AND FINANCIAL POLICIES

> From 'Kebijaksanaan Ekonomi dan Keuangan yang Tidak Bijaksana', a lecture delivered to the 'KAMI Economic, Financial and Monetary Conference', Faculty of Economics, University of Indonesia (FEUI), 10– 20 January 1966. First published in 1966 by KAMI-FEUI as *The Leader, the Man and the Gun,* Jakarta: Matoa: 130–136. Reprinted in a 1984 edition, *Jalur Baru Sesudah Runtuhnya Ekonomi Terpimpin* (The New Path after the Collapse of the Guided Economy), Jakarta: Sinar Harapan: 144–151.

The well-known Marxist scholar, Paul Baran, …contrasts 'intellectual technicians'…who just sell their ideas without bothering about how they are put to use, with 'true intellectuals', people who essentially serve as the conscience of society. And everyone who is in the category of an intellectual (including, but not limited to, scholars and university students) will have to choose: either become an intellectual technician, or serve as the conscience of society…acting to formulate what is in the soul of the people, acting to arouse society's conscience, pointing out what is out of place, giving warnings before mistakes are made, and helping to show the correct path. Perhaps this function of 'arousing society's conscience' will be well received, will be appreciated and will prove useful… But [we] may get the opposite reaction: the universities and their staff may be considered trouble-makers, a nuisance. In this case we must be big-hearted enough to just accept this, and adopt the attitude, 'it doesn't matter. We can only hope that next time they will understand.' Because the social function of arousing the conscience must continue…

In this series of lectures we have realised one of our functions as social critics, to point out what is wrong. People might ask, 'why only criticise?' Well, isn't it better to warn first, before it is too late? I have actually already done this, because this is an essential part of what it means to be a social critic. In early December 1965, for example, when we could hear all sorts of rumours about economic measures that would be taken, I put forward a number of ideas…later taken up by the press. It is worth taking a number of analytical themes from this speech and comparing them with subsequent developments…

I warned the government to avoid taking spectacular measures that were based only on the desire to act quickly, forcefully and to be different. But the

government has in fact recently chosen to use precisely such spectacular but impetuous methods to change the currency. The objective was quite simple, namely to increase the government's cash supply. But the methods used were excessive. It is like using a cannon to kill a fly. This caused extraordinary instability. Moreover, it is clear that the necessary technical preparations for the exchange had not been made…

I also reminded the government that every state agency was obliged to act consistently to remove all dishonest elements. We should at no stage ever allow our state enterprises to become milch cows, but should give them truly a leading and commanding position [in our economy]. However, until now the government has made no move in that direction.

When giving these warnings I also emphasised that the greatest danger from runaway inflation was not the possibility that the economy would collapse, creating disorder…but that it may lead to a change in ethical norms and values so that people would consider dishonesty and social inequities to be natural. Social and political conflicts might consequently grow worse, culminating in [social] turmoil. This was my most serious warning.

Of all the warnings that I delivered then, the first and most important was that the government should never try to overcome economic problems in such a way that might splinter the unity between the people and the Armed Forces, particularly at times when strong unity is most necessary. It was therefore necessary that both the people and the Armed Forces employ the greatest vigilance and wisdom.

In comparing these warnings with the measures which were subsequently taken, we can conclude that there are different evaluations of the situation and the steps which had to be taken. What is interesting is that it seems that the financial and economic measures taken by the government were concealed behind theories and technical terms—terms which are often used but rarely explained, adding to the general confusion. For example, theoretical terms like 'high-level equilibrium', production approach, non-conventional, and minimum basic needs are used. We always need theory, but if it is used for policy-making it must bear some relationship to reality. The facts show that the theories put forward by the government are not closely related to either political or economic realities. Moreover, the theories themselves are actually wrong and these technical terms have little meaning. So we face a rather strange phenomenon when listening to the speeches made…at this seminar: those defending the economic measures taken by the government emphasise theory, while economics lecturers emphasise social realities. This truly is an upside-down world!

This lack of appreciation for these realities has resulted in inconsistent policies… The logical result has been a crisis in legitimacy. And if a government is not legitimate any economic measures are bound to be unsuccessful. On the contrary, if economic measures are unsuccessful the government's authority will steadily decline. This will not result in an endless vicious cycle, but a downward spiral. If we are not careful the situation might lead to what has happened in

some Latin American countries, where 'the economy grows, but only at night because that is when the government is asleep'. Economic decline will cause very serious economic and political unrest, particularly if accompanied by a widening gap in living standards.

Related to this widening gap in living standards, there is another [downward] spiral caused by the interaction between accelerating inflation and the shift in ethical values. Inflation will change such values, but accepting that the social inequities caused by inflation are normal will only further exacerbate inflation. It is for this reason that the problem of overcoming inflation must also be tackled using a psychological approach. The shift in values and norms needs to be corrected by realising the *Pancasila* in our everyday attitudes, activities and lifestyles. In his book *How to be a Good Communist* the Chinese leader, Liu Shaoqi [Liu Shao-tji], stated that a good communist must be 'the first to suffer hardship, the last to enjoy comfort'. In coming to terms with this severe inflation, it seems appropriate for us to ask ourselves, 'How should I be a good Pancasilaist?' and then try to put it into practice in our everyday lives.

Closely related to the problem of overcoming economic decline is the role of the government, on the one hand, and the role of the people on the other. The government's recent financial and economic activities are characterised [by the attitude] that overcoming inflation is simply a question for the government, whereas the people are just considered objects—as Sultan Hamengkubowono IX stated in his opening address to this conference. Economic decline cannot be overcome without a united movement of the people and the government The people's enthusiasm is an absolute prerequisite. As is stated in the DEKON (Economic Declaration), it is an absolute necessity that the people develop their creativity and potential in order that economic problems can be overcome. It is very interesting that, in its recent financial and economic measures, the government has practically totally ignored the DEKON.

In conclusion, based on these analyses and commentaries by teachers of the Faculty of Economics at the University of Indonesia (FEUI), let me suggest that the series of economic and financial measures recently taken by the government are essentially imprudent, and will only add to existing economic difficulties.

Hamengkubowono IX (1966)
THE TRUE STATE OF OUR ECONOMY

The Sultan's (untitled) 12 April 1966 statement was published in the English edition of *Business News* (Jakarta) on 15 April. Sections of the statement, from which these quotations are taken, were reproduced with slight emendations in Arndt and Panglaykim (1966).

We decline to make promises which may arouse unrealistic hopes among the people. They may become disappointed if improvements fail to come up to expectations. The only promise we give is that we will do our best honestly to meet the challenge.

In the 1950s the State budget sustained deficits of ten to thirty per cent of receipts, and in the 1960s it soared to more than 100 per cent. In 1965 it even reached 300 per cent. The most serious of all took place in January, February and March 1966. Within the first quarter of this year it amounted to almost the whole government expenditure in 1965.

In 1965 prices in general rose by more than 500 per cent; in fact, the price of rice soared by more than 90 per cent. Unless swift and correct steps are taken it may sky-rocket by more than 1,000 per cent in 1966.

Any person who entertains the idea that Indonesian society is experiencing a favourable economic situation is guilty of lack of intensive study. For years to come Indonesia's economy [will be] saddled with foreign debts totalling $2.4 billion. This year we will have to begin to pay our long-term debts. If we fulfil all our obligations, we have no foreign exchange left to spend for our routine needs. This is the reason why for years we have been importing our daily necessities through short-term loans (better known as deferred payments) on conditions detrimental to us.

There must be an austerity programme, a programme of retrenchment covering all facets of government… All state enterprises, whether commercial or otherwise, have to operate on truly economic norms… The Government should also review its taxation system. It has to adopt a tax system which will not only raise revenue but also guide the public toward economic efforts beneficial to the State and society. Not only the system needs to be reviewed but also ways of collecting taxes have to be simplified and systematised.

In the agricultural sector, food yield and farmers' income must be improved appreciably… Irrigation, fertiliser, pesticides and implements to boost output are essential. Credits and better transport too will help their income… Rehabilitation of highways, maintenance and expansion of the network of roads in economically important areas are a necessary condition for our economic recovery and stability. To bring efficiency and effectiveness in maritime transport, we need port facilities, particularly dock facilities to render fast service to oceangoing vessels demanding services and repair… This subject will be given special attention.

To recreate sound foreign exchange traffic, the Government will shortly take steps aimed at the restoration of control and utilisation of State-owned foreign exchange, while still respecting the ownership of foreign exchange… Sole control will be restored to the Foreign Exchange Fund regulated by the Central Bank.

What are the prerequisites…for economic rehabilitation? Every official, whether in the government or the private sector…should render the greatest contribution within his ability in the interest of the State and nation, not merely

act for personal gain… The Government deliberately restricts its programme within the limit of its capacity and the prevailing atmosphere in the conviction that it will not reach its goal without public support and aid… The public should exercise social control to see that no abuses are committed. If they are committed, the guilty party needs to be warned. If it ignores the reminder, the public ought to report it to the authorities.

The government will abandon its attitude of regarding medium- and large-scale private enterprises as…enemies.

Emil Salim (1966)
TO CREATE A *PANCASILA* ECONOMIC SYSTEM

From 'Sistem Ekonomi Pancasila' published in the daily newspaper, *Kompas,* 30 June. Reprinted in Kompas (Sumarkoco Sudiro and Raymond Toruan (eds)) *Mencari Bentuk Ekonomi Indonesia, Perkembangan Pemikiran 1965–1981* (The Search for a Format for the Indonesian Economy, Intellectual Developments 1965–1981) 1982, Jakarta: Gramedia: 36–38.

In our efforts to promote a distinct economic system for Indonesia, we should hold fast to the ideas in the *Pancasila,* particularly those outlined in the document 'The Birth of *Pancasila*' and in Articles 23, 27, 33 and 34 of the 1945 Constitution.[5] For the economy, it is the moral principle of Social Justice that is the most relevant of [these five principles]. It entails two meanings: the principle of a just distribution of income, and the principle of economic democracy.

Historically, it is easy to understand why people desire a more equitable distribution of income. The distribution of income during the colonial period was very unjust. Less than three per cent of the population, mainly foreigners, received far more than twenty-five per cent of Indonesia's national income. It was therefore necessary to drastically change this pattern of income distribution. What we are pursuing, however, is not only a society with 'an equitable distribution of income', but also one that is prosperous. This means that national income must also grow more rapidly.

In the colonial period, economic growth was based on free fight liberalism. The Indonesian people were left behind in the struggles [entailed in] this form of economic competition because they did not possess a compatible means of production. The liberal economic system thus worsened an unjust distribution of income: the economically strong grew stronger, and the weak were left behind.

In order to avoid such a bitter experience, the principle of Social Justice emphasises the need for economic democracy. Essentially, this is a form of participatory decision-making within economic units (factories, companies, state economy, etc).[6] The principle of economic democracy is manifest in Articles 23, 27, 33 and 34 of the 1945 Constitution. Article 23 emphasises the parliament's

right to veto the budget *(hak budget)*. This means that the government might desire all sorts of plans and projects, but, in the last instance, it is the people themselves who will decide whether a plan or project is carried out—because it is the parliament which has the right [to determine] the budget, state revenues (taxes), and the exchange rate. This is the principle of economic democracy in our *Pancasila* economic system…

Of course, this all takes place within a national political climate in which the rule of law is guaranteed. Article 27 obliges us all to respect the law, from the supreme power-holder down to the ordinary citizen. In an economic system that guarantees economic democracy, every citizen is entitled to a suitable standard of living and suitable employment (Article 27). The right to employment is not the privilege of only a small clique or group. Everyone is entitled to equal opportunity. But our humanitarianism gives the state the task of caring for people should they fall into abject poverty, in accordance with the *Pancasila* (Article 34).

The principle of economic democracy is also manifest in Article 33: 'the economy will be organised on a cooperative basis according to the family principle'. Here, in the Elucidation of the Constitution, the emphasis is on 'society'. 'Production will be carried out under the direction or ownership of members of the public'. It is social welfare that is given priority, not that of individuals. 'Society' is not synonymous with 'state', so it is clear that a *Pancasila* economy not only rejects free fight liberalism but also statism, a command economy in which the state and the economic apparatus of the state are completely dominant, stifling people's initiative.

But this does not mean that the state does nothing. Article 33 also emphasises that the branches of production which are important to the state and which affect the livelihood of the masses must be controlled by the state. The earth, water and natural riches contained in the earth are controlled by the state and are to be used for the welfare of the people. So strategic sectors [of the economy] will be controlled by the state. A *Pancasila* economy can be compared to the traffic in Jakarta. Every member of society is free to go anywhere he wants. But this freedom also involves the responsibility to respect the general interest. We cannot just step on the accelerator at whim, and endanger traffic. Traffic regulations have to be obeyed. The police control strategic locations such as intersections to coordinate traffic. The traffic police do not control all the roads; at most, they check and supervise. The roads we walk on and the air we breathe…are not the property of the individual, but of the state.

This, then, is the *Pancasila* economic system explained in simple terms. It is not rigid, like the statist economic system of the Soviet Union, nor is it liberal, like that of the United States. It is freedom with responsibility, orderliness without stifling people's initiative, and strives for a just and prosperous society based on economic democracy.

Mohammad Sadli (1967)

COMMEMORATING THE ECONOMIC POLICIES OF 3 OCTOBER 1966

From 'Neraca Kebijaksanaan Stabilisasi Ekonomi Satu Tahun' (Weighing up One year of Economic Stabilisation Policies), *Kompas,* 30 October. Reprinted in Kompas (Sumarkoco Sudiro and Raymond Toruan (eds)) *Mencari Bentuk Ekonomi Indonesia, Perkembangan Pemikiran 1965–1981,* 1982, Jakarta: Gramedia: 99–104.

The economic situation we inherited

Our economic base had been destroyed by inflation, which climbed to an annual rate of 650 per cent in 1966. Large and prolonged price distortions had eliminated the desire to make productive investments. Suffering most from the inflation was the modern sector (plantations, exports, state corporations, public utilities, government). For normal economic development we could rely upon the mentality and morality of neither those who occupied the state apparatus, nor entrepreneurs in business and trade.

The Old Order government never paid attention to the health of the state budget because it [followed] incorrect economic and political doctrines, and because there was no effective political, social or administrative supervision. Trapped in the mud of hyper-inflation, the government increasingly financed the deficit by printing new money. Essentially, the main cause of hyper-inflation were these government deficits. And it is here that the first corrective measures had to be taken.

In a situation of hyper-inflation, any sector in which prices are fixed by the government will cease to exist. This was the fate of exports, domestic industry, public utilities and several services. Exports fell because the official exchange rate was controlled too rigidly; domestic industry could not expand when exports fell and foreign exchange became difficult to obtain; public utilities could not be maintained, nor could they make new investments, and the service they provided grew worse and worse.

Fortunately, the foodstuffs sector was not damaged greatly by inflation. This was because food products were not exported (and were not affected by official exchange rates), so prices could not be set by the government. This was small consolation. The production of foodstuffs increased at about the same rate as the population, so a structural deficit in rice production (of about ten per cent) has never been met, and the government still has to import rice each year. Major projects for expanding the area under cultivation and opening up new land outside Java only existed on paper because there was no capital to carry them out. What was possible was only intensification (BIMAS), with limited funding.[7]

Conclusion

The situation inherited by the current cabinet was an emergency, such as that after a long and devastating war. The economic apparatus was in a shambles, the value of the currency had almost disappeared, the basic needs of the people were not being met, and there was a need for unlimited amounts of capital for rehabilitation. It was a situation like that faced by many countries after World War II. Stabilisation and rehabilitation needs to be long-term, will require large injections of foreign aid and capital, and will need strong and stable government that has the courage to become unpopular. One example is Professor Lieftink, the Dutch Finance Minister who implemented economic stabilisation after World War II. His measures achieved their goal, but he became the victim: he had to step down. The risk here is that such an operation may succeed, but the doctor will die!

Essentially, the patient named 'the Indonesian economy' became extremely ill because of a frivolous and incorrect lifestyle that was kept up for too long. The illness was not really caused by external factors, such as is the case with an epidemic, so the cure has to be a strict diet. And for some time the patient will have to be given strong vitamins and medicines—from outside. The patient will not be allowed to do certain things, will not be allowed to eat certain things, and he will not be allowed to run if the body is still weak. The patient must walk slowly!

Doctors can do no more than recommend a healthier and more normal life-style, try to supervise the diet, and ask the patient's friends to give or lend the patient strong vitamins and medicines for a number of years. In the last instance, there is little the doctor can do. The important thing is that the patient take responsibility for his own diet and for changing his own lifestyle, for it is ultimately willpower that will determine everything.

The steps [to be] taken

Our patient, the Indonesian economy, cannot be placed in a hospital under heavy guard. He is an outpatient who is rather difficult to supervise. In technical terms, the economic 'lifestyle' has to be improved in the following ways:

1 The government budget must no longer go into deficit. It is not the deficit itself which is so important, but that government expenditures have been non-productive. There must be a healthy balance between routine and development expenditures.
2 The rate of inflation must be curbed. A certain level of inflation is probably unavoidable in Indonesia, provided that it indicates growth. But over an extended period an annual inflation rate of more than, say, thirty per cent, will damage the economy. So inflation must gradually be reduced to below thirty per cent. The government wants to achieve this within a few years.

3 Prices should reflect real production costs, and prices must not be controlled (apart from a few essential goods during the transition period).
4 Exports should not be constrained by exchange rate controls, heavy taxes, bureaucracy or corruption.
5 Banks should be able to attract large savings deposits from the public (meaning it must increase the rate of savings), and implement active and selective credit policies. [The practice of] making available large amounts of credit because of political considerations should be reduced, or, better still, eliminated completely.
6 Domestic industry must be protected effectively, but branches of industry that are structurally inefficient should be simply closed down. Allowing an inefficient industry to continue permanently by means of over-protection and subsidy could only be politically motivated.
7 Don't be afraid of foreign investors. We need their capital. Their management can provide an example for national businesses. Their more up-to-date technology must be introduced to all sectors of production. Don't be worried that national companies will go bankrupt. If this happens, they will face political problems. They know this, and will prevent it from happening themselves! The government also has enough power to prevent this from occurring.
8 Government monopolies which are unnecessary and which only delay competitive and efficient development must be eliminated. Regional governments and other local authorities must loosen their grip on economic activity. Indonesia must become a single economic unit with no barriers between one region and another.

Soeharto (1970)

INDONESIA LAUNCHES ITS DEVELOPMENT OFFENSIVE

Excerpts from a speech delivered 17 April 1970 explaining a series of measures to change the trade regime, summarised in *Indonesia* (Jakarta) 4: 5–63. Although both Indonesian and English-language versions were published in this issue, this excerpt is based on the Indonesian version, especially pp. 11–13.

The President states that in keeping with the principles of Economic Democracy based on the *Pancasila,* economic progress must always be based on the activity and responsibility of the people, and on the self-reliance of the people, whether in private enterprise, cooperatives or state enterprises. The government will always focus its attention on promoting such self-reliance. Explaining the background to these new economic policies, President Soeharto says:

> In the period beginning on 3 October 1966 the government took measures relating to state finance, monetary policy and trade, measures which involved restoring order to the utterly confused state finances; regulating monetary matters and banking; and freeing trade from the fetters imposed by an unfair 'quota' system and from a maze of regulations, stifling initiative…
>
> These goals were achieved, and from the middle of 1968 we were able to increase our activities in finance, monetary matters and trade, the main objectives being to:
>
> 1. control food prices, clothing prices, and the exchange rate;
> 2. provide sufficient infrastructure to increase national production, especially that of food and clothing;
> 3. improve the infrastructure to increase production;
> 4. improve trade, banking and fiscal institutions.
>
> Together, these efforts successfully stabilised the economy, and since 1 April 1969 we have begun to implement our Five Year Development Plan *(Repelita)*…

I feel it necessary now to speak with you directly about the policies that have been adopted by the government, because I know that development is not something that happens just because of a 'command'. Development can only succeed if the people work enthusiastically and participate in implementing development. I believe that all of you, the whole people, will take part in development because you know clearly the direction in which we are heading.
I have emphasised that we will not return to either 'liberalism' or 'Guided Democracy' in our political life. Similarly, in the economy, we will not take the path to liberalism. Greater freedom for business means that society will develop more initiative, creativity and responsibility. The government will permit such freedom, but will continue to put greater stress on the interests of society as a whole rather than individual or group interests.

The government emphasises market forces, but will not surrender to the free play of such forces. The government feels that it is responsible for constantly supervising and controlling the factors and circumstances which influence market forces. Whenever distortions within the market harm the general interest, the government feels that, in order to eliminate these imperfections, it is obliged to take direct action to influence the factors that lie behind these forces.

The government is thus giving genuine attention to the position and role of national entrepreneurs, especially the economically weak, the majority of whom are medium- and small-scale. The government will continue to endeavour to help these social forces so that, step-by-step, they can play an ever greater role, actively participating in the development process. The government will continue to take concrete steps to promote those entrepreneurs classified as economically

weak, while avoiding making distinctions in the rights of citizens and preventing a small 'privileged class' from emerging—which would only harm the interests of the common people.

NOTES

1 Most notably, an economics lecturer at the University, Subroto, castigated the economic policies of the Guided Democracy (Subroto 1966). Bresnan (1993:60–61) describes his and other presentations to the symposium.

2 Descriptions of the policy orientation of the BAPPENAS technocrats in the 1960s and early 1970s can be found in Bresnan (1993:51–85), McDonald (1980:68–86) and Robison (1986:110–111, 132–137, 145–146).

3 Widjojo did write on economic matters prior to 1966. As early as 1955 he proposed an economic programme that he termed 'anti-liberal', but which would be governed by the price mechanism and in which 'private enterprise would be allocated a specific role' under close state supervision (Wilopo and Nitisastro, *The Socio-Economic Basis of the Indonesian State,* Ithaca: Cornell Modern Indonesia Project, 1959; as quoted in Feith and Castles 1970: 382–385). His PhD was in fact in demography, and barely touches on development planning issues. He does call, however, for 'a massive development effort' and an enhanced family planning programme to provide employment and reduce population pressures (Nitisastro 1970:235–238).

4 Arndt and Panglaykim (1966) comment on the details of the speech, while Bresnan (1993:54–56) discusses its historical significance.

5 'The Birth of Pancasila', *Lahirnya Pancasila,* was the famous speech delivered by Sukarno to the Investigative Committee for the Preparation of Independence on 1 June 1945. It became the Preamble to the 1945 Constitution and was soon accepted as the philosophical foundation for the Indonesian state. Reprinted in Feith and Castles (1970:40–49).

6 In this paragraph Salim relates economic democracy to the Dutch term *medezeggenschap,* 'participatory decision-making'. Similarly, in the following paragraph he refers to the rule of law using the term *rechtszekerheid,* literally 'legal security'. This latter term contains strong overtones of welfarism, however, implying a legal safety net for the underprivileged. The editors are indebted to Gitte Heij for this explanation.

7 *Bimbingan Masyarakat,* 'Social Guidance', a programme for the application of new technologies to increase agricultural production begun in 1965, but which only gained momentum after 1971 (Sjahrir 1986:94–102).

2
The 'society-first' critics

INTRODUCTION

The initial focus of the technocrats on monetary techniques to stabilise the economy and attract Western aid was not universally accepted, even within state circles. In the first public opposition to the BAPPENAS strategy, in 1967–1968 a number of prominent political figures criticised the focus on foreign-led rehabilitation and the contractionary measures used to control inflation. They proposed instead a state-led programme to rebuild the infrastructure, especially communications, arguing that increased state expenditures were necessary to stimulate development. They also urged Indonesia to pursue a non-aligned foreign economic policy, avoid becoming over-dependent on Western aid and investment, particularly from the US, and increase its level of cooperation with other Asian and African countries. These proposals were based on the belief that public policy should give priority to fulfilling broad social needs rather than be based on purely fiscal considerations.[1]

At least partly as a result of such criticisms, there was a perceptible shift in development objectives in the following years. The BAPPENAS technocrats remained committed to balancing the budget, but after 1968 they placed more emphasis on development. Economic growth and industrial expansion were the priorities, and in implementing the *Repelita* foreign aid and investment was used chiefly to build up the industrial infrastructure and foster large-scale enterprise.[2] Running somewhat at cross-purposes to these policies were statements acknowledging that it was the duty of the state to ensure that economic development brought benefits to society as a whole. This chapter will present some of the critical voices that emerged from, and nurtured, the pressures that encouraged this partial reorientation.

The first and perhaps most potent critique of the BAPPENAS strategy came from supporters of economic nationalism. The economic changes of the early years of the New Order had disadvantaged various social groups, who urged changes in this initial policy orientation. Old-style nationalists were critical of the 'open door' to foreign capital represented by the Foreign Investment Act of 1967; indigenous business was critical of the new opportunities made available

to ethnic Chinese investors following the Domestic Investment Act of 1968. Also vocal in their opposition were sectors of the Muslim community aligned to small-scale industrialists and traders, who had found it difficult to compete following the influx of foreign capital. Finally, liberal-minded intellectuals, already disillusioned with the concentration of political power around Soeharto and the Armed Forces, attacked BAPPENAS policies for allowing the concentration of wealth around groups associated with foreign capital. Sectors of the student movement were especially critical of economic policies that they felt were favouring only a privileged elite. These disparate social forces sustained a range of views, but a common thread to the criticism often voiced at the time was that economic policy was failing to meet the real needs of the people, and that Indonesia needed a development strategy more oriented to social welfare.[3]

The contributions below are representative of what we have called the 'society first' development perspective which was taken up by these various groups in the first half of the 1970s. The first selection is by Professor **Sarbini Sumawinata,** a former Chairman of the Central Bureau of Statistics (BPS) and PSI intellectual, who provides an important link between the revolutionary ideals of the early years of independence and a later generation of activists. He considers development a process of political rather than economic change, and in the late 1960s became increasingly critical of policies that he believed were helping only a small social elite. It was he who led the opposition to the BAPPENAS strategy in 1967–1968 (Thomas and Panglaykim 1973:140). The main question for Sarbini, and the one he addresses here is: how can Indonesia promote a more people-oriented form of development, given her economic weakness? Sarbini wrote this article while the *Repelita* was being drafted and, as this excerpt makes clear, he is generally supportive of its goals. He nevertheless makes a number of specific criticisms of the thinking behind the plan, and argues forcefully for a very different relationship between state and society.

The second contribution is by Dr **Soedjatmoko,** also a former PSI intellectual, who after the New Order came to power was appointed Ambassador to the United States, cultural adviser to BAPPENAS, and later rector of the United Nations University in Tokyo. Soedjatmoko is remembered for the moral and international dimensions he brought to policy matters, and here he urges planners to take a long-term view of the development process in order to focus on structural social problems. He notes that the technocrat's strategy has successfully rehabilitated the modern sector, but regrets that the massive traditional sector where these social problems are mostly located is languishing. Foreshadowing a policy innovation that would be introduced a decade later, he proposes a populist alternative to close the gap between the traditional sector and the modern sector, dominated as it is by large foreign-owned companies. Perhaps the most intriguing aspect of this article lies in his prediction that successful development would inevitably require a political realignment between state and society, as new forces emerge that have to be accommodated politically. 'A

government must therefore be prepared to accept change in its initial power base, and even a certain degree of damage to it.'

The ideas of Sarbini and Soedjatmoko represent the intellectual core of a critique which became widespread in certain student, press and intellectual circles in the early 1970s. Much of the criticism voiced during these years was directed towards a perceived over-reliance on foreign capital, which was considered unable to meet Indonesia's real social needs. These critics warned against the danger that a form of 'enclave development' would result from development based on foreign investment, and proposed an alternative strategy that focused on agricultural production, small-scale industry, alternative technologies, labour-intensive manufacture and, most importantly, on the effort to satisfy basic needs. As early as 1970 a prominent technocrat told a development conference in Sydney that countries that had emerged from anti-colonial struggles were strongly motivated by ideological pressures, and he warned foreign companies planning to invest in Indonesia that they would 'have to live with the forces of economic nationalism in the host country, which can display various forms and intensity [but] will not remain static for very long' (Sadli 1972:202– 203). Throughout 1973 a series of seminars and 'discussion groups' were held by students and academics at which the ideas of Sarbini and Soedjatmoko were widely discussed.[4] As Sadli recalled after attending a conference on foreign investment in late 1973, 'in the mind of the political public in Jakarta, the honeymoon with foreign investment and foreign aid is apparently over' (Sadli 1974:18).

The government began to respond to this pressure and move in the direction of a basic needs approach. A specialist on government welfare policy notes, for example, that the impetus for a large-scale programme introducing compulsory primary school education (INPRES-SD, *Instruksi Presiden—Sekolah Dasar,* 'Presidential Instruction—Primary Schooling') in 1973 was the result of 'strong political pressure from youths, students and the intelligentsia' (Sjahrir 1986: 102). This critique gained its ideological teeth, however, when the issue of popular welfare was linked to inequities in the distribution of wealth. Many critics had come to consider corruption the major obstacle to establishing a healthy relationship between state and society, and the final selection in this chapter is typical of the robust debate on development issues that was taken up in the press.

The **Indonesia Raya** daily newspaper had a generally liberal orientation, and frequently attacked alleged abuses of political power. Writing in a popular and journalistic style, the writer expresses a number of the themes of the 'society-first critique' which had been only implicit in the earlier contributions of Sarbini and Soedjatmoko. By the mid-1970s these critics evidently had a different perception of Indonesia's economic potential, and in this article he uses the case of the oil industry to describe how dependence on Japanese capital has effected Indonesia's international standing. Most significantly, he links foreign economic

dependence to growing economic inequality, for he alleges that it is government policy that is responsible for the phenomenon of 'the rulers going into business'.

Only one week after this article was published serious riots broke out in Jakarta during a visit by Japan's Prime Minister, Kakuei Tanaka. Alleging that Japanese investors were sucking out Indonesia's wealth, demonstrators destroyed the offices of the Toyota agent, burned hundreds of vehicles, and razed a major shopping complex. But what began as nationalistic attacks on the alleged domination of foreign capital came to be redirected at domestic targets, particularly local Sino-Indonesian partners of Japanese firms, and their political patrons. Culminating six months of increasingly strident student and press criticism of economic policy, this so-called 'Malari' affair shook the confidence of the government in economic growth alone as sufficient guarantee for political stability.[5]

The government responded to this criticism with a raft of new measures, announcing that steps would be taken to promote indigenous business, to reduce the conspicuous consumption of the elite and to tighten controls on foreign capital—which would be progressively excluded from large sectors of the economy altogether.[6]

It is undoubtedly the case that this readiness to contemplate a different role for the state in the mid-1970s reflected improving economic conditions. The success of the stabilisation effort, an inflow of oil revenues from 1974 and the resultant increase in investment activity released the technocrats from tight financial constraints, allowing them to—pragmatically—implement policies to achieve some of the development objectives described in Chapter 1. But this reorientation had occurred prior to these improved economic conditions, and it was the tangible pressures brought to bear by a range of social forces that encouraged the government to look to other responsibilities. Although many of the more outspoken critics were jailed for months, and in some cases for years, the Malari affair thus marked an important turning point in government policy. Criticisms such as those made by the following writers changed the debate on development within Indonesia, and put issues of social justice and national pride higher on the policy agenda.[7]

Ian Chalmers

Sarbini Sumawinata (1968)
A DIFFERENT ATTITUDE TO THE FIVE-YEAR DEVELOPMENT PLAN

From 'Repelita', an article delivered to the congress of the Association of Indonesian Economists (ISEI), Palembang, 1968. Reproduced in a collection of Professor Sarbini's writings edited by Sjahrir (1989) *Menuju Masyarakat Adil Makmur, 70 Tahun Prof*

Sarbini Sumawinata (Towards a Just and Prosperous Society, Sarbini Sumawinata's 70 Years), Jakarta: Gramedia: 140–165.

In an underdeveloped country like Indonesia…development is seen as a problem for the government and thus a political question, while society is just a passive object that can only pin its hopes on development. But people don't realise that they also have responsibilities. It is as if the development effort is just thrown to the government as its sole responsibility and obligation. Based on this perspective, members of the public generally expect development to benefit them personally, and that these benefits will then be divided up between different social groups. They thus have an inaccurate or even a false idea about development itself…

They are largely unaware of what development means in general terms, nor do they understand specific development problems. Yet the term 'development' has been used more and more often, so people generally expect that development should simply bring prosperity…

They do not really understand that, essentially, development requires sacrifice. In the past, they have certainly suffered when those in power asked them to make sacrifices—in the name of development. Consequently, whenever people are asked to sacrifice for development, they suspect that it will only benefit those who hold power. Clearly, we need a better understanding of what development means because, if we don't, any talk about the enthusiasm and participation of the people will have little meaning…

The *Repelita* as a planning document

As a planning document, we can say that the Five-Year Plan *(Repelita)* is better than previous plans. But, broadly speaking, the document contains several important weaknesses. Firstly, too little attention has been paid to measuring how different sectors influence each other… Second, the Repelita gives insufficient support to the routine budget needed to reorganise the state administration. In a country like Indonesia, development should be mainly the government's responsibility, with the state apparatus bearing the burden of implementation, leadership and finance. Development thus means extra efforts in terms of scale, intensity and quality, which requires that the state carry out better and more intensive efforts. A larger and more efficient routine budget is needed to improve, broaden and intensify the state apparatus…

Third, funds for financing the plan must be sourced domestically. But today's economic policies are based on the depressed economic atmosphere of 1967–1968, and it is doubtful that the private investment hoped for in the *Repelita* will be realised. For example, unless the current economic situation changes it is unlikely that the expected investment of Rp 25 billion, or about US$ 75 million, by domestic and foreign investors will be realised…

Fourth, the problem of development of the regions has not been clarified conceptually… Development of the regions is inextricably linked to the question of centre-regional relations. The regions generally feel that they are unjustly treated by the centre. As long as issues such as financial allocations, regional autonomy and the decentralisation of economic activities are not solved, then demands for development in the regions will always be a political problem, and we cannot expect regional development to take place…

Our attitude

We can therefore say that people today are generally apathetic about the *Repelita* because they have very little faith in our capacity as a society or nation to implement meaningful development… Development demands very special responsibilities and efforts on the part of our leaders. Unless some fairly basic and impressive changes take place in their attitudes towards social issues like honesty, corruption, work management, democracy and the rule of law, then people will continue to be apathetic about development; they will continue to take a wait-and-see attitude, acting only if they expect to benefit personally…

We believe that the *Repelita* is small in scale, yet quite realistic in view of people's general abilities and the specific capacities of social and developmental leaders. It is precisely a small but realistic plan which will better guarantee good results. This is extremely important in building people's faith in future developmental efforts. But we must not allow implementation of this small development effort to fail. We therefore have no choice but to…strive as hard as possible to offer suggestions and to act to prevent its failure. This means that we [must] make demands on our government and social leaders not to allow this simple plan to fail in mid-stream. It is not enough just to give support. We must also constantly monitor its implementation and offer positive advice and constructive criticism, no matter how sharp, to prevent bottlenecks obstructing the *Repelita's* success. We must do this because as a social group which thinks of itself as pioneers of modernisation, we have a direct interest in the success of development.

Soedjatmoko (1970)
DEVELOPMENT PROBLEMS IN INDONESIA

From 'Problems and Prospects for Development in Indonesia', *Asia* 19:7– 19. With slight emendations.

Another aspect of the development process…concerns the building of the kind of political structure that will make possible the pursuit of developmental goals, the integration of minorities and the creation of broader, overarching loyalties that go beyond traditional loyalties toward family, tribe and communal group. The

emergence of such political structures involves developing a variety of modern goal-oriented organisations alien to traditional societies. Only a political system which develops these capabilities will be cohesive enough to withstand the various threats to their existence which new nations have to face… In the final analysis, it is this capacity to develop a cohesive social and political system, and its vitality, which in the end will determine whether these nations will have the ability to stand on their own feet and cope successfully with their developmental problems…

Economic development does not take place in a vacuum. It needs a government that is strong and has a commitment to pursue the goals of economic development… It also means the willingness, courage and capability to bring about the necessary administrative reform and generate the national discipline without which economic development and pursuit of any major task by any nation becomes impossible. Economic development requires the capacity, the will and the courage of a government to organise the whole nation for that purpose, not only economically, but also politically…

But the various models of economic development which exist seem to take the whole problem of development away from its political sphere, away from problems of power… Inasmuch as economic development brings in its wake political change and shifts in the political balance of forces, the capacity of a government to maintain the economic development momentum will very much depend on its courage and its ability to absorb the political changes that follow in the wake of economic development. Each phase of economic development will create its own constituency, and these new constituencies will have to be incorporated into the body politic of the nation. This means the need for a constant broadening of the power base on which the government rests, and a constant shifting of the constellation of forces. In order to sustain the momentum achieved, a government must therefore be prepared to accept changes in its initial power base, and even a certain degree of damage to it.

We are now in the second year of our economic development plan. Having gone through a period of stabilisation efforts, we can point with a measure of pride to the successes which have been achieved… The goals we have set ourselves, I believe, are realistic and attainable, and we are now far enough along to begin thinking about the next Five-Year Plan and the problems we will have to face then. Looking at our long-term problems, we can say that they are mainly structural They concern massive and growing unemployment and the pressures of excessive urbanisation upon housing, schools and jobs. There is the need for reorientation of our educational system, as well as the question of the maldistribution of the population throughout the archipelago…

Moreover, to go beyond the context of the present plan, it is likely that our success in agricultural modernisation will force us to look much more closely at the dichotomy between the modern sector, with its capital-intensive enterprises, and the traditional sector with its small-scale, labour-intensive industries. Of course, the modern sector is extremely important in the pursuit of a higher

growth rate. But the development of the modern sector with its sophisticated technology by itself will not be enough to make a dent in the massive unemployment problem which we increasingly face. For this it will be necessary to modernise the traditional sector of our economy and to develop small-scale, labour-intensive industries based on local resources. This may require a new kind of technology. Unfortunately, the development of this kind of intermediate technology is an area which has been sadly neglected so far…

It is…important that no foreign enclave should emerge in the Indonesian economic system. This can be avoided by the promotion of a number of linkages with the local environment This could take the form of involving indigenous businesses in the operations of the private foreign firm. It might mean the utilisation of local raw materials or help in the development of indigenous servicing capabilities, rather than importing services and materials. It might also involve the local manufacture of components and spare parts, even though in the short run continued imports might be more economical for the investors… What I am really speaking about is the integration of private foreign business into the national development pattern.

'Indonesia Raya' (1974)

THE RULERS GO INTO BUSINESS

By Enggak Bahau'ddin, 'Penguasa Menjadi Pengusaha', *Indonesia Raya,* 7 January.

President Soeharto's New Year speech this year was quite impressive, but unfortunately failed to answer many issues close to the people's heart. Just look at the questions asked by university students who 'went into the streets' to demonstrate against foreign loans, foreign investment and the misuse of bank credits. It is now a public secret that those who benefit from these activities are the big-shots and members of their families—wives, relatives, children, nephews, close friends and cliques.

Children and wives have been made directors, members of the board and shareholders in all sorts of foreign and domestic joint ventures with non-indigenes [i.e. Chinese, ed.]. People are also talking about the startling figure of almost Rp 200 billion of credit being given to a number of non-indigenous business groups intimately connected to these New Order big-shots. Indigenous *[pribumi]* business groups, by contrast, do not obtain such credit; nor do they enjoy special facilities from the government It was only after great social unrest on this issue that the government decided to provide 'mini' credit of Rp 5 million to small-scale *pribumi* businesses.

Perhaps those who wrote the President's speech forgot to mention this problem in his New Year message… Why didn't [they] explain the reasons for the widening gap between the very great number of poor people and the very small

number of rich people, people like these government big-shots, their friends, and *non-pribumi* business groups close to the government?… The President's speech would have been more valuable if it had paid attention to the 'inner voice of the people's conscience' given expression by the university students when they went on to the streets.[8]

In his speech, the President denied [the accusation] that accepting foreign aid was tantamount to selling oneself. And we see that this accusation is untrue. What is true is that the aid we receive from Japan gives us the impression that we are so dependent on Japan that we cannot sell our oil at international prices. The Arab states and Venezuela can set the price of this important raw fuel at $16 per barrel, but Ibnu Sutowo could only get $10.80 from Japan. And that was only after long negotiations. Yet the quality of our oil is much higher than that produced by the Arab states—which is bought by Japan at much higher prices! Doesn't this prove that because we feel so indebted to our older brother, the 'Greater Japan', that every year we are willing to give them a subsidy worth millions of dollars?

We could play a [greater] diplomatic role in today's international climate if we could only extricate ourselves from these strong ties to Japan, using oil as a weapon to apply political pressure.

The voice of the students

Hariman Siregar,[9] Chairman of the Student Council of the University of Indonesia…has stated that it is our duty to free the people from everyday suffering, for economic development has become a new myth and an instrument to legitimise power. People have become alienated from the development process, and they think that economic development means people being forced off the land or forced to sell rice to the government, causing life in the villages to become more and more difficult. By contrast, a small group linked to the powerholders have taken advantage of the opportunities made available to them to accumulate wealth and satisfy their desire for luxury goods.

Our big-shots should think seriously about these student demands. Naturally, these big-shots and powerholders now accumulating wealth will not like the demands made by the younger generation. The fact is, in our homeland it is becoming difficult to distinguish powerholders from businesspeople, because it is very easy for those who hold power today to get involved in businesses like tree-felling, automobile assembly, sea transport or manufacturing. How can anyone fail to become rich if their business has political backing?

But hopefully such cases of 'the rulers becoming businessmen' will gradually disappear, for the Bangkok incident was caused by similar developments.[10] Indonesia's leaders should learn more about the history of other countries—and about our own history too!

NOTES

1 The 1967–1968 debate is summarised in Thomas and Panglaykim (1973: 139–144) and Arndt (1967:12–20), who notes that this opposition resulted in the technocrats making some compromises to their monetarist approach in the 1968 budget.

2 Rudner (1976:266–276) describes how the implementation of Repelita I converted a strategy to promote agriculture into a programme to promote the industrial sector and the formation of government-sponsored oligopolies and monopolies.

3 A good overview of small-scale business and middle class opposition to the BAPPENAS strategy is provided by Robison (1986:146; 159–164). Palmer (1978: 152–174) notes the range of social groups who opposed this strategy, and records what she calls its subsequent 'partial rectification'. Hassan (1982:1–43) describes the varied response within the Muslim community, while Raillon (1985) details intellectual criticism led by the rather irreverent Bandung weekly, *Mahasiswa Indonesia* ('The Indonesian Student'), before it was banned in 1974.

4 Bresnan (1993:143–146) describes the significance of the 'discussion group movement' in 1973. Soedjatmoko was a frequent visitor to campuses prior to the Malari, and students have cited him as an important source for their ideas (Bresnan 1993:143–144).

5 'Malari' is an anagram formed from the Indonesian for '15 January', *LiMA beLAs januaRI*. It was later dubbed the '15 January Catastrophe', *MALApetaka limabelas januaRI*. The events are described most fully by Arifin (1974), but Crouch (1988: 313–317) provides a more balanced account.

6 An important statement by the President on 22 January signalled a new policy direction (*Business News* Jakarta, 23 January 1974:3). Robison (1986:164–168) examines the policy significance of these events.

7 A number of figures involved in the 'discussion group movement' were blamed for fomenting the Malari, and were jailed for periods ranging between several months and several years. Those jailed included Sarbini Sumawinata, Sjahrir, Dorodjatun Kuntjoro-Jakti, Hariman Siregar and the author of the final contribution in this chapter, Enggak Bahau'ddin (D.Hill 1994:37).

8 This is the traditional battle-cry of the Indonesian student movement justifying political activism, namely that it is their duty to support the 'inner conscience of the people', *suara hati nurani rakyat*.

9 Siregar was a student of medicine at the University of Indonesia, and played a central role as a student organiser prior to the January events. He is married to the daughter of Sarbini.

10 The author is referring to the riots protesting foreign exploitation which had just occurred in Bangkok—and which played a significant part in encouraging similar anti-Japanese demonstrations in Jakarta.

Part II

The phase of burgeoning economic nationalism

3
The rise of statist-nationalism

INTRODUCTION

We have seen that in the first half of the 1970s important sections of the political public adopted a more critical attitude to the government's development strategy generally, and to its emphasis on foreign investment in particular. This populist antagonism towards foreign capital fed back into government policy, and the *Malari* protests gave impetus to the momentum that had been building. A report for American firms seeking to invest in Indonesia noted that the riots provided the catalyst for subsequent policy changes, marking the end of a 'pragmatic "let's work it out" philosophy…and the emergence of economic nationalism as perhaps the dominant force shaping government investment policies' (US Embassy 1975:3).

As Indonesia entered the period when economic nationalism was the most important determinant of economic policy, economic thinking was dominated, not by populism, but by a form of statist developmentalism. This important shift in the official definition of policy goals took place in the mid-1970s. The more critical attitude towards foreign investment had originated amongst indigenous business groups and their intellectual supporters, and initially won state support. The debates on development in 1973 and the protests of 1974 put questions of social justice higher on the political agenda, linking it to efforts to increase the small share of the economy owned by indigenes. The *Malari* indeed marks an important turning point, in the sense that these concerns were now taken up by senior state officials. But in adopting a more critical stance towards foreign capital the domestic focus of the critics of the early 1970s was redirected into an outward-looking form of economic nationalism, one in which the state would play a major role.[1]

As pointed out in the Introduction, this redefinition was made possible by the two oil booms of 1974/75 and 1980/81. Increased revenues from oil extraction accrued directly to the state, which, as a direct result of its capacity to disburse credit and allocate contracts, had enhanced leverage over society in general. But the particular form of this economic nationalism, with its emphasis on capital-

intensive industries and strengthening the national economic structure under close state supervision, reflects the ideologies that had become entrenched in particular parts of the state. It is therefore important to identify some of the institutional centres within the state apparatus for this statist-nationalist ideology.

One such institution was the state oil monopoly, Pertamina *(Perusahaan Pertambangan Minyak dan Gas Bumi Negara)* which, under General Ibnu Sutowo, successfully renegotiated exploration contracts with foreign oil majors in the late 1960s. Providing the greater share of the revenue that fuelled Indonesia's subsequent expansion, Pertamina recycled much of this oil wealth back into large industrialisation plans.[2] Pertamina's use of state authority to force foreign capital to support Indonesia's own development aspirations set a powerful precedent for economic nationalists, and is mentioned as a model in a number of the excerpts below. A second important institutional forum for economic nationalism was the Department of Industry, which until the 1980s generally maintained its determination to tightly regulate the economy, a propensity it had developed in the early 1960s (Chalmers 1996). And in 1973 the Investment Coordination Board (BKPM) was established as a 'one-stop service' to process foreign investment applications; with strong personnel links with the Department of Industry it soon became a third bulwark for official economic nationalism.

The most influential centre of nationalist thought during these years, however, was a private research institute established with business funding in 1971, the Center for Strategic and International Studies (CSIS). This body has never had any formal political authority, but in the early 1970s developed close links with the government political party, Golkar, with the intelligence agency, BAKIN, and with the shadowy military organisation, OPSUS. Two CSIS founding directors, Major-General Ali Moertopo and Major-General Soedjono Hoemardani, were also members of Soeharto's 'Presidential Advisers' (ASPRI). Finally, in its formative years CSIS was closely associated with a number of major national capitalists, notably Lt-General Ibnu Sutowo and Sofyan Wanandi (Liem Bian Koen). CSIS was thus in a unique position in the Indonesian political and economic system, able to exert considerable influence in economic policy debates.[3]

In the early 1970s the CSIS intellectuals developed a distinctive form of economic nationalism which assigned the state a key role in restructuring national capital. Whereas their contemporaries identified in Chapter Two adopted a more isolationist stance on development issues, these thinkers developed the pragmatic, optimistic form of economic nationalism that would dominate policy debates in the following years. As is evident in the selections below, the issue which most concerned these intellectuals was: under what domestic conditions could Indonesia improve its bargaining position *vis-a-vis* international capital?

The first selection is by **Ali Moertopo,** then a Major-General and a personal adviser to the President (ASPRI) who played a decisive role in shaping the New

Order's strategic and military thinking. The article from which this excerpt was taken was published before the influx of oil revenues, and here Moertopo discusses the political arrangements he considers necessary to make rapid development for Indonesia a real possibility. Moertopo says little here about what he believes to constitute a genuine development process, apart from a very general call for developing countries to catch up with the advanced states.[4] Rather, his focus is on the social and political prerequisites for accelerated growth. Towards the end of this excerpt he indicates the annual growth rate that he believes is necessary to transform Indonesia's economy, and finds that the major obstacles to achieving this target are social and cultural. Consequently, he favours greater interaction with the outside world, but in a tightly controlled form. He advocates that his particular definition of the state ideology be applied 'to every aspect of life, to every government institution and state organisation, as well as to all levels of urban and rural society'.

The second excerpt is from an article by Professor **Jusuf Panglaykim,** a man who had been a managerial adviser to state corporations in the early 1960s and was now a senior economist at CSIS. Here he clearly enunciates the principles which would later be widely accepted as necessary for the state organisation of the private sector, a detailed programme for building 'industrial groupings' around state banks. For Panglaykim, the great problem Indonesia faces in dealing with an increasingly competitive world economy is its own, highly fragmented, business sector. The many small indigenous-owned companies are ill-equipped to bargain effectively with foreign firms, and it is therefore vital that Indonesia bridge the gap between cottage and large-scale industries. This historical legacy will not be overcome if left to the market, however. Panglaykim therefore presents us with a strategy for building a united 'Indonesia Incorporated', a countervailing political-economic force able to deal with multinational corporations on an equal footing.[5]

The third selection comes from **Soedjono Hoemardani,** another founding member of CSIS. This more philosophical piece begins with the undeniable premise that a number of 'dis-harmonies' have long existed within Indonesian society. He argues that the purpose of the national struggle was to overcome such divisions, but regrets that economic change is hastening a process of social disintegration, for the growth of the modern sector is outpacing that of traditional agriculture. Providing a useful reiteration of the main elements of the state ideology frequently used in political discourse in Indonesia, Soedjono presents the common, official, interpretation of *Pancasila* and the 1945 Constitution. The question Soedjono deals with here is, how to use the ideology of economic democracy to build an harmonious relationship between the three prime actors in the national economy—state, private business and cooperatives—and thereby halt this trend towards disintegration.

The final selection by **A.R.Soehoed** comes from an article published just before he was appointed Minister of Industry in the Third Development Cabinet (1978–1983). A number of the ministers of this cabinet were current or former

directors of CSIS, at a time when increasing oil revenues allowed the state to exert greater state control over various aspects of Indonesian society. This article begins from the premise that Indonesia's weakness in respect to foreign capital cannot be blamed solely on the private sector, but is due to poor state planning. Here, Soehoed outlines the extensive administrative and business realignments he would strive to implement in the following years. As is clear from a glance at those sectors to be given priority, the future Minister would attempt to restructure virtually the entire manufacturing sector, as well as much of the mining, agricultural and retail sectors. Significantly, he also envisages that the state would play a leading role in both ownership and control of these sectors.[6]

The form of economic nationalism advocated by these thinkers shared a number of objectives. Firstly, these writers believed strongly that the ultimate purpose of the development effort was to modernise Indonesian society, which therefore had to embrace new economic, social and cultural forms. A second objective was to build national unity and national strength, and thereby overcome the historical legacy of its colonial past. The third objective, one which subsumes the first two, was to bring about structural economic change, for they regarded such structural change as a prerequisite for meaningful social change. Finally, common to all these writers was the belief that only state intervention will achieve these various goals.

This confidence in the state's capacity to restructure society was given expression in the stated objectives of *Repelita* III (1978–1983), which indicated that statist-nationalism had now come to set the policy agenda. Much of the increase in state revenues was to be used for implementing large-scale development projects such as those outlined by Minister of Industry Soehoed. And in response to populist criticism of a growth-oriented development strategy, *Repelita* III placed greater emphasis on the 'equal distribution of the fruits of development', with increased subsidies for daily necessities such as fuel, kerosene and rice. A third objective was to promote indigenous entrepreneurship, and Presidential Decrees nos 10 and 14A of 1980 gave preference to *pribumi* firms for the allocation of state contracts (Pangaribuan 1995: 51–55). All three policy objectives entailed extensive state regulation of the economy. The issue for these writers, one which runs through all the following selections, is to find a form of state intervention which would allow all three goals to be pursued simultaneously.

Ian Chalmers

Ali Moertopo (1972)
OUR NATIONAL DEVELOPMENT STRATEGY

From 'Strategi Pembangunan Nasional', Chapter 4 of *Dasar-dasar Pemikiran tentang Akselerasi Modernisasi 25 Tahun,* Jakarta, Yayasan Proklamasi and CSIS: 51–56. This book was published in

1973 as *Basic Thoughts on The Acceleration and Modernisation of 25-Year Development,* but the following excerpts are from the Indonesian original, which differs slightly from the English version.

As a developing country, Indonesia is still always confronted with the problem of having to decide how to shape its future development. The appropriate policy is what is generally called modernisation. In order to achieve our goals as efficiently as possible, modernisation is nothing more than the process of using all available material, ethical, scientific and technical means to organise, structure and implement development based on one way of thinking. The need to modernise arises from the actual reality that development, reform and change for the better requires careful planning and implementation, as well as an ever-increasing amount of finance…

The modernisation process which was experienced by the developed and industrialised countries of today need not be adopted in its entirety. The experience of these countries can simply be used as a guide. The process of modernisation to be followed in Indonesia might take a totally different path, for policies are generally shaped by the conditions existing within each particular country. This last statement means that there are [an infinite] set of problems that could be dealt with. It also means that we cannot state *a priori* that modernisation in Indonesia will have the same negative effects that today's developed industrial societies are beginning to experience…

The challenge of modernisation is something that developing countries cannot ignore… This is the reality the world faces today. The imbalance in the international world, with 20 per cent of the world's population in a few industrial states enjoying 80 per cent of world income while the 80 per cent of the world's population [that lives] in the backward nations are able to enjoy only 20 per cent of the world's income, is not only unjust; it also causes potential tensions which may threaten global and local security… This means that development [planners] in developing countries cannot refuse the task of helping to control this increasing global gap. The ever-increasing task…[for] developing countries is to accelerate their modernisation …

It is undeniable that these measures for acceleration are 'artificial', and must be made to speed up [the process]… And, being artificial, these measures will automatically give rise to new problems which will need to be taken into account beforehand, as far as that is possible…

The need for the acceleration and modernisation of development cannot be separated from new problems that have emerged, indicating that development has become an increasingly complex problem… A country of impoverished people is extremely vulnerable to threats, both domestic and external. It is here that we find the essence of the doctrine of national resilience. This doctrine approaches modernisation from two complementary and mutually reinforcing directions, namely to guarantee the security of our nation, which has struggled hard to win independence (the security approach); and to deliver an improved

standard of living to the Indonesian nation, as befits its independence ideals (the prosperity approach).

For Indonesian society, which is still largely traditional, modernisation involves changing and renewing its value system. Modernisation thus entails changing those norms which are no longer socially functional, or which hinder change. Change should be comprehensive…and not limited to social and cultural lifestyles, but should also [involve] technical, economic and political aspects. The fact is that these various aspects will not change simultaneously in carrying out such a [comprehensive] change. The technical aspects change more easily than do people's customs. For socio-cultural change, modernisation demands an open attitude to foreign influences and cultures, as well as the strong support of progressive leaders who can promote the work ethic and a spirit of progress. This all requires a reorientation towards a new era and towards the future, leaving behind an idealised past.

This process of modernisation will naturally involve conflicts, as new norms come into conflict with traditional norms. Consequently, modernisation requires planned social and cultural change… As 'planned change', modernisation must clearly determine the direction which will be taken. This requires that the model of the *Pancasila* state be clarified and the principles of *Pancasila* applied to every aspect of life, to every government institution and state organisation, as well as to all levels of urban and rural society.

The prosperity and welfare of the people is a single objective, although its implementation is difficult to elaborate… The point of departure [for its realisation] is to determine the intended growth in national production which is to be achieved. The concept of acceleration and modernisation [involves] setting two targets, namely to increase Indonesia's national income at least three-fold, and to increase Indonesia's national income by approximately 8 per cent annually. Based on figures for the growth of national production between 1966 and 1969, the annual growth rate averaged 4.3 per cent annually… It can be estimated that [this] growth rate will reach 8 per cent in the future… Using [this] estimate, it can be calculated that a period of twenty-five years will be required for a three-fold increase in national income.

It is hoped that by setting this target it will be possible to conceptualise long-term policies that will last for at least one generation. This is intended to both generate and cultivate the long-term involvement of the nation in ensuring that independence will continue to be given substance. This concept is a continuation of the struggle [of] the New Order.

Jusuf Panglaykim (1973)

DOMESTIC ECONOMIC STRUCTURES FOR GLOBAL INTERDEPENDENCE

From 'Struktur Domestik dalam Interdependensi Ekonomi Dunia', *Analisa,* 2, 12:37–44.

The international economy…and international industries exert a strong influence on any country. In order to deal with such influences—directing and taking advantage of them—we need to create a mechanism for close cooperation between the three vital sectors: government, business and bureaucrat-technocrats. Before discussing the question of [how to create] such a mechanism, we would do well to first examine the structure and organisation of our own private sector.

The structure of the private sector

In organisational terms, we can divide the private sector into the organised modern sector and the unorganised, traditional, sector. In general, the modern sector consists of companies operating near major cities, whereas the traditional sector is generally in agricultural areas. With the exception of foreign companies, the modern sector is characterised by organisations that are still atomistic—even in the case of registered companies (PTs).[7] There are thousands of small and medium-sized companies in Indonesia, a few dozen that can be considered large in national terms, [but] just a handful that are large on an international scale.

This atomistic [structure] is a legacy of the time when there were political parties, when all sorts of benefits were channelled to companies that were no more than shells. The creation of thousands of phantom importers, exporters and small companies only made this structure more atomistic, so the bargaining position of our national companies *vis-a-vis* larger national and foreign companies remains weak…

Our business and economic forces can generally be divided into those that are economically strong and those that are economically weak. The economically weak are largely in the hands of *pribumi,* whereas the economically strong largely consist of *non-pribumi* businesspeople—although we have recently found *pribumi* business groups that can also be classified as strong. This obvious gap has caused tensions that were originally economic, but has also given rise to all sorts of social tensions…

The role of the government, bureaucrats and technocrats

When examining difficulties in our national business structure, we must not forget the most important factor. There are always 'natural links' between production and consumption, whereby each has a productive function in bringing

products/services to the consumer. Such links…are absolutely necessary in the effort to make a country's economy effective and efficient…

Our purpose in stressing the meaning of these 'links' is that only by fully understanding them can we find a solution, because only when we can see our economy as an integrated whole can we gradually find a resolution which will be of benefit to all… It is not possible to guide the weak groups (retail, cottage industry) in the right direction unless there are 'links' with large and powerful companies, or with state/ private banks… Those small groups that have been promoted without help from those able to provide a range of products are less successful, or fail… [It is] the role of the government and bureaucrats/ technocrats to recommend and aim at [such an] 'integrated whole', so that each individual component has more realistic links at a national level.

The government is responsible for policies to encourage and direct the development of national business, as well as employment and foreign investment policies. Policies for national business should be based on the effort to integrate weak with strong businesses by concentrating on 'natural links'. This should not be made compulsory through regulation, but by encouragement to both parties. For example, if an economically strong company receives credit from a state bank, it should be encouraged to upgrade the weak economic groups in its particular business. As an incentive, certain benefits could be provided if this company had seriously, honestly and successfully promoted a group of economically weak businesses in its particular sector.[8] In addition to strong companies helping and promoting economically weak businesses, the government should also conduct training exercises, either within the institution or in conjunction with large private companies.

We can thus gradually create a group of the economically weak who possess the means and qualifications for becoming medium-scale enterprises, and which could become larger if they combined.

The role of the banks

State banks, which currently control over 80 per cent of credit, are important in promoting and directing economic activity because they have leverage over a range of projects and enterprises. In this context, it is very important that the government determine [what should be] the role of banks generally, and state banks in particular. [They might be] given the opportunity to create 'industrial groupings' in which they would be permitted to take equity. They could then directly influence the successful companies and direct them towards promoting economically weak groups, as well as creating other ventures which would be useful for the economy.

A system in which banks cooperate with successful and experienced industrialists has been successfully implemented in Japan and West Germany, and is at an early stage in Singapore. While serving as a means for the government to implement state policy, it is quite possible for state banks to work

with private banks to create industrial groupings that can be developed into countervailing powers to face up to the multinational corporations. This countervailing power can only become a potent weapon if the banks which now have the capacity are given the opportunity to enter into the international market to strengthen their industrial groupings. Banks could thus help their Indonesian partners find medium-term and long-term capital. This would avoid the current situation, in which the Indonesian partner in a joint venture has to borrow from its foreign partner.

Entering the international market is not only important to enable the Indonesian partner to obtain long- and medium-term working capital, but will also encourage banks to sell shares of successful companies within their industrial grouping on the capital market. This will accelerate the development of the capital and money markets. Other financial institutions besides the banks should also be able to look for long-term capital…and provide capital that was 'tailor-made' for Indonesian enterprises. If their efforts are too restricted then a situation like that at present will arise, one in which we cannot control how the Japanese 'big ten' or Hong Kong businesses lend to Indonesian enterprises. But they could be better controlled through such financial institutions.

When examining international developments from a purely business point of view, we should see that the merchant bank is the most appropriate financial institution for a developing country… These banks can draw in economically weak private businesses and help them to expand by taking advantage of the consolidated strength of their industrial groupings, their large borrowing capacity and their experience in a range of business activities. This assistance will not be in the form of subsidies, but will be based on selectivity: those who have potential, ability, resilience and skill must be helped to grow into important components of the industrial grouping.

An industrial grouping led by a bank or industrialist (through an investment bank) will not remain the property of family X, Y or Z, but will gradually 'go public'; the owners will be investors who entrust management to professionals. We cannot do this at the moment, but if the banks would be willing to be pioneers in setting these industrial groupings in motion, then we would both strengthen ourselves *vis-a-vis* multinational corporations and develop the capital and money markets. We could thus also integrate our economy into one unit in which the economically strong and economically weak complement and assist each other. The weak would be given the opportunity to expand on the basis of their performance. We would thus redirect economic development [to lessen] the tension between the weak and the strong, and so that economic development would become healthier and of educational benefit for both.

The role of the private sector

In order for natural linkages between the weak and strong to gradually develop, the economically strong corporate groups cannot ignore the atomistic business

environment in which they operate nor the economically weak groups they need to involve in their businesses. The strong groups must strive to find ways to raise the weak groups to a point where they can become independent in a wide range of activities. Each strong group should be prepared to set aside a certain amount to involve the economically weak in its business, remembering that they need guidance, capital and business connections before a more permanent form of cooperation can be established. Both sides must realise that it is not easy to find a permanent form of cooperation, which must be firmly based on the principle of 'give and take'.

In addition, the economically strong groups should provide funds for training the economically weak in all sorts of professions. We need a systematic programme which will make it possible for *pribumis* to become company managers (too many of whom are still nonindigenous) and thus eventually create a more stable atmosphere between both groups. On the other hand, the economically weak should accept that they will be judged according to normal business standards. In other words, both groups must show their good intentions so that all unnecessary prejudices that give rise to social tensions can gradually be removed.

Using methods that do not disrupt their operations, successful economically strong corporations must also prepare to gradually 'go public' and accept capable professionals as managers. Ownership will thus be separated from management in an orderly way, which is a precondition for the future development of Indonesia's financial market.

Confronting the MNCs

To confront the MNCs it is not enough for the government to simply determine which sectors will be closed to foreigners and place restrictions on capital. It is just as important that the government, private sector and bureaucracy create a mechanism for close cooperation, a programme which will allow these three national elements to organise themselves into a countervailing power to face up to the MNCs. We need a study group or a national committee to examine possibilities and specify the mechanisms that are needed.

Couldn't we merge the strength of the national private sector with state corporations in single joint ventures? What role can we expect state banks to play in helping these joint ventures increase their borrowing capacity? State corporations currently prefer to form joint ventures with foreigners, but isn't it time we reconsidered this? Couldn't a large state-owned corporation be managed like a private business, as was the case with the internationally successful Central Trading Corporation (CTC)?[9]

It is important that we create a countervailing power to face up to the MNCs. But this will be a political decision because it will involve many different mergers before larger and more effective businesses can be created. These mergers will be easier and develop faster if a large number of our companies have already

'gone public' and begun to separate ownership from management. One consequence of the development of the financial market will thus be that most of Indonesia's companies will be entrepreneurial, creating bigger and more integrated businesses. An important precondition for facing up to the MNCs is that we create integrated businesses able to deal with them on equal terms.

Soedjono Hoemardani (1981)
ECONOMIC DEMOCRACY TO INTEGRATE THE NATION

From 'Beberapa Segi Pembangunan Nasional' (Several Aspects of National Development), *Renungan tentang Pembangunan* (Some Thoughts on Development), Jakarta: Yayasan Proklamasi, CSIS, 1981:18–21. This article was written several years before this collection was published, probably in 1977. Please note that words emphasised are as in the original.

Essentially, the framework and basic principles for long-term economic development reflect the consensus of the Indonesian people, to practise *economic growth with justice.* This consensus has been placed in the 1945 Constitution, according to which economic development will be based on *economic democracy.* The main features of economic democracy are:

a The economy shall be organised as a common enterprise based on the family principle;
b Branches of production which are important for the country and which determine the needs of the people shall be controlled by the state;
c The earth, water and the natural resources they contain shall be controlled by the state and used as much as possible for the prosperity of the people;
d Sources of wealth and state finances shall be used through consultation with the people's representative institutions, while these institutions shall monitor policy;
e Citizens are free to choose the employment they wish, and have a right to suitable employment and standards of living;
f Private ownership is recognised, and may not be used contrary to the interests of society;
g The potential, initiative and creativity of every citizen will be fully developed, with the restriction that it will not harm the general interest;
h Abandoned children and the destitute shall be cared for by the state.

In the life [of our nation] which is based on economic democracy, society must play an active role in developmental activities. The *government* is responsible for directing and supervising economic growth, while creating a climate conducive

to the development of the private sector. For its part, *business* must respond to this direction, supervision and climate with concrete actions. As elaborated in the 1945 Constitution, the Indonesian economic system is constructed on the basis of *three national economic forces,* namely the state sector, that sector of society organised into cooperatives, and the national private sector. Economic growth with justice means that these three sectors grow together in a way that is mutually reinforcing.

This formulation takes as its starting point the reality that there exists disharmony within Indonesian society, between the rich and the poor, between the urban and rural populations, and between the modern and traditional sectors. Economic growth with justice is an attempt to overcome such disharmony, with development intended to increase production while preventing disparities and a widening of the gap between rich and poor, between village and city, and between the traditional and modern sectors.

Developing countries today experience a tendency for economic growth to actually cause an increase in such disharmonies. In particular, efforts at *structural economic change,* away from a focus on agriculture (the traditional sector) and towards one based on industry (the modern sector) are *not implemented smoothly,* giving rise to grievous side effects. Far from domestic economic forces becoming more integrated, there occurs instead *economic disintegration,* which becomes more and more difficult to overcome. The rapid growth of the modern sector is evidently not accompanied by an increasingly productive traditional sector. The growth of the modern sector occurs at *the cost* of and *weakens* the traditional sector…

From their investigations, many experts have concluded that the process of economic disintegration which occurs during structural economic change is caused, above all, by sharp distinctions being drawn between existing forces, each of which is dealt with on an individual basis, without there being created a *strong mechanism to link one with another.* It is an absolute necessity that such linking take place so that existing forces can reinforce one another… The objective of national economic development is to bring *one economic unit* into existence, which is one of the elements leading to realisation of the *archipelagic principle*.[10]

That sector of society organised into cooperatives is comprised of *economically weak groups,* and they need to be given special attention. On the one hand, the state sector, namely the government, has the task of supervising, directing, protecting and, if necessary, subsidising this section of society so that it becomes a viable economic force. On the other hand, the creation of stronger links between the…cooperatives and the national private sector through economic integration will accelerate this growth, guaranteeing harmonious and mutually supporting development. The national private and state sectors will thus together help to promote the cooperatives, which is still a relatively weak sector of society. When such national economic integration is created, *Indonesia's*

economic relations with the outside world will also become healthier, in the sense that the benefit of these relations will be felt at all levels of society.

A.R.Soehoed (1977)
PLANNED DEVELOPMENT THROUGH SECTORAL TARGETING

From 'Commodities and Viable Economic Sectors—A Possible Basis for Development Planning', *Indonesian Quarterly,* 5, 1:46–68. With minor emendations.

Following the period of rehabilitation and stabilisation of 1967–1968, the Indonesian government commenced drawing up a series of five-year development plans. Examination of the first two plans, *Repelita* I (1969–1974) and *Repelita* II (1974–1979), reveals that they were compiled by assessing the potential which could be mobilised. These assessments were based on the experience of each government department…[and] resulted in a pattern of development strongly characterised by divisions reflecting the vertical administrative structure of the state. Although an obvious shift of emphasis took place during the transition…with the second plan paying more attention to regional aspects, during its implementation it appears that optimal utilisation of existing socio-economic potential is not likely to be attained.

This shortcoming is due, in part, to the limits of departmental administration and the low level of interaction between the regions. Contradictions between monetary and industrial policies and between industrial and trade policies, as well as the apparent lack of synchronisation in the development of infrastructural requirements, appear to reflect the inadequate level of coordination and interaction among socio-economic forces. If there was such coordination and interaction, better results could be achieved in a shorter time.

So far, coordination and interaction has been sought on an *ad hoc* basis by such means as interdepartmental committees and special teams. Not infrequently, these *ad hoc* measures fail to achieve the desired goals when mutually antagonistic viewpoints come to the surface…due to fundamental differences of approach and interpretation. This paper intends to propose an approach to development planning which takes as its point of departure the utilisation and development of specific potentials within Indonesian society. Basically, this allocation of priorities relates to particular commodities and sectors of the economy which, by virtue of their specific character or geographic position, or [some] other special consideration, may most effectively produce development-generating effects. It is anticipated that the forces released by exploiting these particular commodities or economic sectors would, in turn, enable a satisfactory…acceleration of Indonesia's development to be achieved.

A sectoral approach

There are several commodities among Indonesia's natural resources which are in high demand in the contemporary world market, such as oil, natural gas and timber. There are other resources which could become as important, if they were exploited properly. However, there does not yet appear to have been any special measures taken to prepare the way for the type of long-term exploitation that would allow natural resources to provide the foundation stones for rapid development [as we head towards] national 'take-off.' Only oil and gas have so far received the specific long-term attention required to develop those resources, to the point at which they function as a powerful basis for development and are now by far the strongest single supporting pillar.

Certain industrial sectors, such as electronics, tools, components, machinery and textiles, have convincing prospects in view of their potential market in Indonesia, their labour-intensive nature and their potential for expansion. However, the prospects for these industries are limited by the domestic availability of industrial raw materials and the low purchasing power of Indonesians, particularly those in rural areas who are heavily dependent on agriculture. Within these limitations, the growth of foreign- and locally-financed secondary industry and manufacturing may be described as satisfactory. But future development will depend upon the degree to which these obstacles to expansion are overcome. This picture clearly indicates the need to increase rural income (purchasing power) and to direct industrial development towards basic industries (planning for industrialisation).

Steps to establish raw material processing industries in Indonesia have already been taken by foreign enterprises. However, the incapability of Indonesian entrepreneurs to counter-balance the foreign partners in such industries is glaringly apparent. This situation could very easily give rise to foreign domination within certain sectors, both vertically and horizontally, such as would be the case if foreign interests exercised control over both the textile and synthetic fibre industries, for example. Given the current inadequacies of national private enterprise, there is clearly a need for the government to play a role in some sectors. This is not merely because of the possibilities for direct profits for the government. More particularly, political and strategic considerations require the government to preserve its stake in the economy and create the conditions for future national development.

With these objectives in mind, the government should obviously exert a degree of direct influence [to promote] existing potentials. The government's role might include the selection of enterprises over which it wishes to exert influence. A list of commodities and economic sectors with good potential and which are sufficiently convincing in terms of the time required for their development may be listed in order of priority:

1 Oil, natural gas and petrochemicals;

2 Non-oil mining and mineral-reprocessing;
3 Forestry and forest products;
4 Iron, steel and heavy industry (engineering);
5 Basic chemicals and silicate-based industries;
6 Plantations for industrial raw materials;
7 Large-scale agriculture for food crops;
8 Those industrial sectors producing sufficient socio-economic benefits.

Implementing agencies

Obviously, government participation can have a variety of purposes, so it is necessary to clearly identify that purpose and ensure that participation is truly beneficial to the national development effort and [does] not slide into *etatisme*. It must be emphasised at this point that the role of the government in the economy should not extend to all economic activities, but should be restricted to a level at which it can exercise sufficient influence over the development of the national economy and have controlling interests in those sectors and areas where national private enterprise is not—or is not yet—sufficiently strong to safeguard its interests. It is not even necessary for the government to become involved in all aspects of those…sectors earmarked for priority; it is sufficient for the government to limit its involvement to those elements it considers vital for the success of the strategy pertaining to that sector.

Implementing agencies are organisations entrusted with the task of implementing government policies for the mobilisation and utilisation of national assets in the specific sectors singled out to become the primary supporters of economic growth. In structure, they could take the form of holding companies in which all shares are held by the government. Their scope of activities may cut across the areas of jurisdiction of a number of departments, depending on the particular sector for which holdings are responsible.

Essentially, holdings would act on behalf of the government and safeguard the national interest by means of the shares that they hold. If necessary, holdings could seek loans for enterprises in which the government decides that a measure of government control is in the national interest. Holdings would be empowered to appoint selected experts to represent them on the boards of enterprises under that holding's control. Government representatives in such enterprises would not simply consist of individual appointees acting alone, but would receive full back-up support from their organisation and would be empowered to take decisions on the basis of instructions from their respective holdings.

Regional aspects

The designation of special growth areas…is based on the fact that precisely because of their special potential, with each containing projects capable of functioning as prime movers, their development is particularly amenable to more

integrated and better focused planning. It is not intended to imply that development should take place only in those areas. Indeed, given the right mix of facilities and incentives, the development of these areas could be accelerated to the point where they generate spill-over effects into other areas.

Within the growth areas, the achievement of optimal development can only be guaranteed if the government exerts sufficient control over the prime-mover enterprises involved. It is precisely this task of organising and maintaining control that must be given to the holdings. It would appear that ideas similar to those outlined in this paper have received the attention of economic planners. However, there is no strategy or set of implementing guidelines designed to direct the provincial planning bodies towards the achievement of optimal results by means of inter-regional coordination.

This holdings concept and structure points to government involvement, particularly in large projects, with government investment in projects normally run by private enterprise. However, this involvement would not be aimed at simply gaining control over any particular sector or obtaining profits directly, but would be intended to guarantee that opportunities for Indonesian private enterprise continue. Private enterprise could subsequently take advantage of these government-guaranteed opportunities, by either gradually buying up some or all of the government-held shares, or by establishing new enterprises.

Conclusion

This paper has outlined the main features of a long-term strategy for the development of the national economy. This strategy is not only designed to advance those commodities and sectors singled out for priority treatment, but also to make integrated optimal development planning feasible for those areas in which these commodities and sectors are located. Without neglecting the development of other areas, the development of selected growth areas would serve to shift emphasis towards political-economic aspects without detracting from the social pre-conditions. In the event that this proposal is acceptable to the relevant authorities, either in its original form or with modifications, the first task that must be undertaken in order to commence its implementation is to draw up detailed blueprints for the establishment of each holding. Such plans would need to cover the bases and scope of [their] responsibility, together with a definition of the goals to be achieved by each holding.

As a consequence of these preparatory steps, it may prove necessary to reconsider certain current policies, including those relating to foreign and domestic investment, direct and indirect taxation, tariffs, trade and industry. The new structure and ground rules that would result from the proposed strategy would facilitate more efficient and better coordinated planning at the provincial level by those agencies responsible for private investment. Such agencies would also be able to focus more attention on encouraging the growth of small and middle-sized private enterprise, particularly [within] the economically weak

sector, which is heavily dependent upon and strongly influenced by the socio-economic conditions that prevail in its immediate environment.

NOTES

1 This paragraph draws on the work of Dorodjatun Kuntjoro-Jakti. Referring to the policy proposals of the CSIS intellectuals, he characterises their nationalism as 'an ingenious rhetorical manoeuvre to bypass the politically sensitive pribumi/non-pribumi issue and the revival of the socio-economic pluralism which had triggered it in the first place' (Kuntjoro-Jakti 1981: 252). The position of the CSIS in the Indonesian policy network in the 1970s is described more fully below.

2 From 1974 its 'Advanced Technology Division' was led by B.J.Habibie, who would himself become a prominent state advocate of economic nationalism.

3 The importance of the CSIS in developing this outward-looking economic nationalism is most fully documented by Kuntjoro-Jakti (1981: Chapter 7). See also Robison (1986:148–152). An indication of the political importance of CSIS in the mid-1970s is the prominent part it played in legitimating the East Timor campaign, which had been launched by Ali Moertopo in late 1974 and 1975 (McDonald 1980: 198–199). See also Cribb (1992:75–76).

4 A similar article was published as Moertopo (1972).

5 Panglaykim uses the term 'Indonesia Incorporated' in other writings on this theme. They do not, however, contain as detailed a description of the associated state-business arrangements. See Panglaykim (1974:3).

6 For his precise objectives as Minister of Industry, see Soehoed (1979a; 1982).

7 A PT, *Perseroan Terbatas,* 'limited liability company', is a legal entity registered with the Ministry of Justice. Most small firms and many, perhaps most, medium-sized companies are not so registered.

8 Here Panglaykim introduces the term *usaha lemah,* 'weak businesses'. Throughout this article he uses various terms interchangeably to refer to the same social class, including *golongan ekonomi lemah,* 'economically weak groups', *golongan lemah,* 'weak groups', and *golongan pribumi,* 'indigenous groups'.

9 The Central Trading Corporation was originally established by the Army in 1947, growing into a large state-owned trading corporation by 1958, when it was renamed Pantja Niaga. Many of its directors have now gone into private business (Robison 1986:339–341).

10 This *wawasan nusantara,* a fundamental principle of Indonesian nationalism, holds that an archipelagic nation is entitled to claim the waters between all its islands. The principle has been argued by Indonesia in international courts since 1958 and was adopted with the United Nations International Convention on the Law of the Sea in 1982 (Cribb 1992:21).

4
The liberal critique

INTRODUCTION

Economic liberalism had little influence in development debates after the mid-1970s, when it was statist-nationalism that set the agenda for policy debates. Unlike the early years of the New Order, when the pragmatism of the technocrats had given some currency to market ideas, the increase in national income following the two oil booms led to an expansion of state controls in virtually all areas of social life. For development policy specifically, increasing centrally-allocated resources meant that priority was given to large-scale industrial projects closely regulated by the state. Remarkably few policy-makers publicly advocated liberal economic prescriptions.

Nor was the business community an effective source of pressure for more effective market mechanisms. The pattern of state-business relations in the 1970s has been characterised as essentially 'patrimonial', whereby successful capitalists came to depend for their survival and expansion on the protection of powerful state patrons. The many small—and perhaps more efficient—national business groups that were excluded from this network of patronage were too weak, both politically and economically, to challenge a state buoyed up by increased oil revenues. At the same time, the nationalist sentiments of state officials and the sunk investments of foreign businesses that had entered the market meant that foreign capital brought little effective pressure on the state to relax its controls. Finally, ethnic Chinese business groups were politically vulnerable and sought protection from individual power holders, further encouraging the spread of patrimonial networks. Large foreign-linked business empires emerged that favoured a continuation of arrangements that gave them the lion's share of state patronage.[1]

It was consequently foreign aid agencies that were the most effective advocates for market-oriented policies. Ideas associated with neoliberalism and export-oriented industrialisation became more popular in Western intellectual circles at precisely the same time that statistnationalism most dominated the development discourse within Indonesia. In the early 1980s the World Bank began to press Indonesia to liberalise its economy and place less emphasis on import

substitution industrialisation. In doing so, it confronted both the business empires that had emerged over the previous decade and a state more heavily committed to regulating the economy. The World Bank (International Bank for Reconstruction and Development, 'IBRD') had been an important part of the policy-making network during the period of stabilisation and rehabilitation, largely on account of its staff's technical expertise. During this period the lack of precise data on the Indonesian economy had given their reports considerable authority amongst both foreign investors and government officials, as two World Bank officials note (Manning and Thompson 1974:77). But the World Bank was now urging economic deregulation at a time when its leverage over economic policy-making was weakest, when growing state resources gave officials greater confidence in their ability to both finance and monitor the development process.

World Bank officials had grown increasingly uneasy about the effect that extensive state intervention was having on the economy as a whole, as is evident in the first selection in this chapter. The **1981 World Bank Report** shows that an agency that had been an integral part of the network responsible for drafting the New Order's development programme was now highly critical of the general approach of government planners. The report engendered great controversy, but was to have a considerable impact in policy debates. Criticising both measures to protect indigenous entrepreneurship and to promote economic equity, its most significant aspect is that it directly challenges the philosophical underpinning of what had become accepted policy discourse. 'Market interventions should be carried out in a way that makes their costs highly visible and uses market mechanisms in enforcing efficiency'. It suggests that the most effective way to achieve the goals of *Repelita* III, namely to reduce economic inequalities and promote entrepreneurship, is to implement a comprehensive programme of economic deregulation and a general move to free trade. In something of an understatement, the report notes that these recommendations were 'strong medicine for the Indonesian economy'.[2]

Initially, the liberal assumptions that underpinned the 1981 report were bitterly criticised by leading technocrats, who felt that such a change in policy objectives might jeopardise the efforts to achieve development targets. The deputy chairman of Bappenas, J.B. Sumarlin, declared that the report 'is based on a misconceived proposition. If all you are interested in is growth, then okay. But we are interested in social development too… We do not like their attitude or their analysis' (cited in Sacerdoti 1981:44). Senior state officials—including President Soeharto—continued to argue that large-scale industrial projects should proceed, as a matter of national pride (Awanohara 1983). But it soon became clear that Indonesia would need to adjust to an economic environment of falling oil revenues, and the debate between advocates of state intervention and supporters of further deregulation was taken up in earnest at the highest level of the government.

The continued fall in oil prices and the consequent fiscal crisis supported the position of those technocrats arguing for more market-oriented policies, and

reforms followed. In one of the most significant moves in the direction of economic liberalisation for over a decade, the domination of the financial sector by state banks came to an end with the deregulation of the banking system in 1983. It was followed by indications that the government was likely to deregulate sectors of the real economy. One can detect a distinct change in the tone of the annual World Bank reports from this time. The differences between key policy makers who supported continued economic controls and those who were urging deregulation had become more pronounced, and the Bank knew that if its recommendations were to be effective it would have to support the position of those technocrats who favoured liberalisation. The second selection, taken from the **1983 World Bank Report,** reflects this new emphasis. Released when a re-examination of policy means and objectives within cabinet had begun in earnest, the report is generally supportive of government efforts. It urges 'the continued support of the international financial community' for Indonesia's structural adjustment. In particular, the report suggests that the deregulation of the financial sector should be extended to other parts of the economy, and that spending on major development projects should be curtailed.

The third selection from the **1985 World Bank Report** further illustrates this enhanced advisory role. The report's premise is clear, namely that long-term and prudent economic policies are needed to maintain the economy's international competitiveness. It recognises that the government has achieved 'major progress in adjusting to the weakness of the international oil market' since it began implementing deregulation in 1983, but notes that it faces difficulties in providing employment for a rapidly expanding workforce. The authors conclude that only the right policy framework can ensure the continued viability of its economy, namely the promotion of the light industries in which Indonesia has a comparative advantage. 'The overall thrust of industrial policy needs to emphasise a shift towards a more cost-competitive industrial structure oriented towards exports'. The report is highly critical of policies protecting particular ISI industries, which, it claims, actually produce negative value-added. Unlike previous reports, the 1985 report explicitly names the sectors effectively subsidised by this protection, indicating that the World Bank was now, once again, an important participant in the debates within state circles on general policy guidelines and their application to particular industries.[3]

Until this time, ministers who may have been willing to consider such a reorientation had been hampered by a widely-held social distrust of free-market ideas. This political mood made it difficult to publicly advocate such an approach, for they feared being labelled 'pro-capitalist' or, worse, 'liberal'. Observers have often noted that ministers who favoured deregulation, but were constrained by this political culture, often found it useful to have the World Bank present their case.[4] This situation changed in an important way in the mid-1980s, however, when key Indonesian policy makers began to present a theoretical justification for economic liberalism.

Sumitro Djojohadikusumo was a figure whose new advocacy of deregulation profoundly influenced the development debate. It will be recalled that in the early 1950s Sumitro designed a detailed state-led industrialisation programme, and in the early years of the New Order he was advocating essentially Keynesian policies in which the state would have a major role stimulating new economic initiatives. But now Sumitro suggested that the economy had become over-regulated, and that the deregulation of banking had only served to highlight rigidities elsewhere. What Indonesia now needed was a comprehensive deregulation.

> Unless you dismantle all the regulations affecting trade and industry, reducing the rate of interest won't have much impact … Unless you remove the man-made administrative impediments, you can devalue and it won't have any impact… You can tinker with monetary policy, but unless you restructure the real economy there will be little effect.
>
> (Djojohadikusumo 1986:38)

Our third selection here is from Sumitro's long 1985 article which provided one of the first and most detailed arguments in support of this position. Sumitro identifies employment-creation as the greatest policy challenge for planners, and finds that it is absolutely vital for Indonesia to maximise its vast economic potential to increase the demand for labour. However, he regrets that red tape is hindering the expansion of the manufacturing, agricultural and trading sectors. The liberalisation begun in 1983 seems to have gone into reverse; 'we are now caught in the middle of two forces moving in opposite directions'. He specifically criticises the emphasis on 'equity' made by those that we have identified as populist, as well as the tendency of statist-nationalists to focus only on increasing 'value-added'. In the early 1950s Sumitro had been responsible for designing and implementing the Benteng and Economic Urgency Programs, both intended to use state authority to promote pribumi business and industrialisation. Citing Presidential authority, Sumitro here makes a strong plea that the goals of increased competition and efficiency now be made the guiding principle in economic policy, for only thus will the economy as a whole expand. In a piece rich in both policy analysis and advice, he notes that planners generally support this goal in principle, but that its application is often diverted by prior commitments to social goals—such as the reduction of social inequity or the construction of national strength, slogans easily manipulated by interest groups seeking particular political favours.

The final selection, from the **1986 World Bank Report,** indicates the greater emphasis on promoting private sector investment that was then being made within policy-making circles. The position of the economic liberals within the economic ministries was much stronger, and deregulation was now proceeding. 'The challenge now before the government is to maintain the momentum of policy reforms so as to establish an efficient basis for renewed economic growth

and financial stability'. The problem for the government, it notes, is the difficulty of maintaining growth with reduced state revenues. The planners are on the right path, it notes, lauding the deregulatory package announced in 1986. This '6 May package' marked the beginning of the policy shift from financial liberalisation to deregulation of industry and trade (Soesastro 1989:860). But Indonesian planners face a major challenge, for enhanced efficiency is a prerequisite to any move to increase exports. The report suggests that this will only be possible if the government dismantles the existing system of regulations and replaces it with one that will promote greater efficiency within the private sector. 'The key determinant of future non-oil export growth will be the policy framework supporting non-oil exports'.

The following excerpts thus present some of the key documents describing the process by which what had been a largely external critique of the philosophy underpinning economic policy-making during the period of economic nationalism came to be adopted within important parts of the apparatus. This process was largely the outcome of a changed economic environment, reinforcing the arguments of technocrats pressing for a more market-oriented approach and permitting heavier World Bank involvement in policy-making. But the new advocacy of economic liberalism was at least partly due to the personal political influence of key policy-makers. Here, the advocacy of deregulation by Professor Sumitro Djojohadikusumo was undoubtedly crucial. If no longer the 'Godfather' of the Berkeley Mafia, Sumitro remained a major force within economic planning circles into the 1980s, and is still considered the 'elder brother' of ministers like Ali Wardhana and Radius Prawiro. During his long career in the Faculty of Economics of the University of Indonesia he has taught such students as Iwan Jaya Azis, Anwar Nasution and Sjahrir, a new generation of economists who were to became influential public spokespeople for further deregulation. In other words, by the mid-1980s a small coalition of liberal-minded officials, academics and social commentators had coalesced around such development ideas, and liberal economic principles had entered legitimate political discourse.[5]

Ian Chalmers

World Bank (1981)
THE NEED FOR POLICY REFORM

> From Annual Country Report on Indonesia, 'Selected Issues of Industrial Development and Trade Strategy', April, Annex 5: 'Direct Private Foreign Investment in Indonesia: A Framework for Policy Reform', sections 2–16.

Although economic performance has improved substantially under the 'new economic order' policies and growth rates compare favourably with other less

developed economies, there are compelling reasons for a substantial reform of economic policy in Indonesia… Present policies have…encouraged a highly inefficient form of industrialisation protected by high trade barriers and extensive subsidies. Problems arising from a lack of international competitiveness have been compounded by a diversion of substantial resources into the generation of, and competition for, rents created and protected by a system of market intervention and regulation. This has, in turn, led to corruption becoming a serious social and economic problem.

While this is widely recognised in Indonesia, there is a tendency to respond by further intervention and regulation. Intervention favouring one group of industries tends to undermine profitability in other firms using their outputs as inputs or competing with them in factor (or product) markets. There is then a tendency to extend protection or subsidies to offset the harmful effects of the first set of interventions…

A sharp break with this cycle of expanding intervention is required… Market interventions should be carried out in a way that makes their costs highly visible and uses market mechanisms in enforcing efficiency… This principle would give preference to the use of subsidies or taxes as opposed to regulation… This principle would suggest, for instance, that subsidies favourable to treatment of favoured firms in these activities, with easily calculated costs in terms of lost revenue or required subsidy payments, would be far more efficient and would force proponents of such interventions to justify the implied subsidies to clearly identifiable beneficiaries. Similarly, subsidies to favoured firms, as opposed to tariff protection, would not only avoid distortions to consumption and production decisions in other sectors, but would force [proponents] of such interventions to identify the alleged social (or external) benefits of particular firms, and to defend these benefits relative to the easily estimated and observed costs of such policies.

This principle is particularly relevant for an economy where the public sector is very important in the industrial and financial sectors of the economy. While public sector firms may be required to carry out certain activities with social benefits that are not profitable at market prices, they should not be protected from open competition. Direct subsidies allow the costs to be compared with estimates of the alleged benefits from non-profitable activities, allow the relative efficiency of the private sector and public sector firms to be identified, and make use of market processes in enforcing efficiency.

The move towards greater reliance on market mechanisms should be carried out in a comprehensive programme of deregulation and elimination of market interventions. Even when the role of government intervention in creating and protecting inefficiencies and high incomes not related to high economic productivity has been recognised in the policy debate in Indonesia, there has been a tendency to seek a partial deregulation and elimination of market interventions. Such a piecemeal approach is unlikely to be successful…

Present policies also tend to be counter-productive to the goal of creating indigenous entrepreneurship… The high returns provided by government

programs aimed at supporting indigenous entrepreneurs encourages many to capitalise on their *pribumi* status by exploiting various subsidy programs or by establishing themselves as fronts for *non-pribumi* firms rather than by developing and capitalising on business expertise… Therefore, some rethinking of policies in this area is required. This requires a shift from a 'zero sum game' mentality in which any success of one group is viewed as being at the expense of other groups, towards a philosophy of nation building based on the use and development of scarce business talents from all groups in society.

Some aspects of such a reform would imply strong medicine for the Indonesian economy. This is most evident with respect to restrictions on international trade. This approach set out here does not imply free trade as a corollary of 'laissez-faire' philosophy, but a very close approximation of free trade will result because tariffs or subsidies on trade flows are generally very inefficient measures for dealing with market failures or for attaining 'non-economic' objectives of the government. Since price distortions in the economy are mainly the result of trade restrictions, a move towards more open trade would be the single most effective measure for increasing the efficiency of the system. Since trade restrictions are strongly biased against the rural economy and favour narrow interests centred on the owners of capital stock or other sector-specific assets used in highly protected sectors, more open trade would be the most effective measure in reducing inequalities in the distribution of income. Since there is little scope for monopoly profits if domestic producers are faced with unrestricted import competition, a move to free trade would also be the single most effective anti-monopoly measure. Since the process of providing favourable trade restrictions, or allowing firms to avoid unfavourable trade restrictions, and the process of competition over the rents created by trade restrictions are major sources of corruption, a move to free trade would be the single most effective policy for controlling corrupt practices.

World Bank (1983)
STRUCTURAL ADJUSTMENT FOR CONTINUED GROWTH

From Annual Country Report on Indonesia, 'Policies for Growth with Lower Oil Prices', May, 'Summary and Conclusions': vi–vii, x–xiv.

Indonesia's resource prospects have worsened considerably over the last year as a consequence of the worst international recession in fifty years and the accompanying sharp decline in the price and volume of oil exports. The current account deficit widened from 3 per cent of GNP in 1981/82 to 8 per cent in 1982/83. The experience of other countries has clearly shown that deficits of this size cannot be sustained…

The government has reacted swiftly and decisively to the worsened resource position. By early May 1983 it had already introduced the most important components of a package of policy measures necessary to restore external balance over this period… In view of the government's clear determination to adopt policies that will ensure a manageable external and internal financial position, and its demonstrated capacity for prudent debt management, the proposed level of external borrowing should not present undue difficulties. The continued support of the international financial community is an important component of the adjustment process, and will make a major contribution to Indonesia's medium-term development prospects.

Oil-related income has been an important source of savings in the economy; it has also indirectly been a major source of funds in the financial system, especially for the five large state commercial banks. With the relative decline in oil incomes and the need to reduce the external deficit, savings of the household sector will have to play a much greater role in the provision of investment finance for the business sector.

Future growth of the manufacturing sector is necessary for the foreign exchange earnings required for investment and growth. Continued import substitution is necessary; but it will not, on its own, provide sufficient foreign exchange for Indonesia's development. The expansion of manufactured exports will also be necessary to provide enough foreign exchange to achieve six per cent non-oil GDP growth rates for the latter half of the decade. The March 1983 devaluation has substantially improved the incentives for export production and import substitution. However, past experience indicates that it must be complemented by supporting measures to have a lasting structural change in the pattern of industrial growth. It is important to maintain international competitiveness through a flexible exchange rate policy and low domestic inflation. And this must be backed by measures to promote efficiency throughout the domestic manufacturing sector, and by policies specifically oriented to promoting exports.

Past growth in the manufacturing sector has been dependent on buoyant demand in a protected domestic market… As a consequence of a highly protective trade regime and a restrictive licensing system that discourages domestic competition, important parts of the manufacturing sector are relatively inefficient and high cost… Partly as a consequence of the worsening external environment there has been little change in the trade regime. The March 1983 devaluation and an environment of expanding world trade in manufactures will provide a favourable opportunity for tariff reduction measures. There is a strong argument in favour of gradual reduction and rationalisation of tariffs, and elimination of import controls, as part of the programme to develop domestic industries that are efficient and competitive with imports. High tariff protection should not be regarded as a permanent feature of industrial policy.

World Bank (1985)

ENCOURAGING GROWTH AND EMPLOYMENT

From Annual Country Report on Indonesia, 'Policies for Growth and Employment', April, 'Summary and Conclusion': viii, xiv-xix.

Over the last two years Indonesia has made major progress in adjusting to the weakening of the international oil market. The stabilisation and adjustment measures adopted in early 1983 have brought gains on a broad front, including a stronger balances of payments, enhanced domestic resource mobilisation and reduced inflation. A particularly impressive achievement has been the reduction of the current account deficit from 8.5 per cent of GNP in 1982/83 to an estimated 2.4 per cent in 1984/85. At the same time, the adjustment has entailed some costs, particularly the decline in fixed investment, sluggish recovery in manufacturing, and the faltering of the construction sector. However, a serious deterioration of the employment situation was prevented by a strong performance in agricultural incomes and non-oil exports.

In the years ahead Indonesia faces the major challenge of generating a pattern and pace of economic growth which would provide adequate employment opportunities and earnings for a rapidly expanding labor force… There is a significant risk of a worsening of employment prospects, but the base case scenario of the report illustrates that the dual challenge of growth and employment could be effectively met provided appropriate macroeconomic and employment policies are pursued…

The report identifies some of the policy areas that are of key importance in meeting Indonesia's development goals. From the point of view of accelerating economic growth and structural transformation, ensuring external payments stability and enhancing employment prospects, it is essential to develop a broad-based and internationally competitive industrial sector through closer attention to efficiency issues on a broad front, including industrial and trade policy, the banking system and public investment. Efficiency improvements in production and distribution would reduce costs, lower prices, and expand the domestic market. Without this, the required growth of non-oil exports will be difficult to achieve. A key area deserving immediate attention is project implementation—where slippages can often increase project costs and reduce benefits by delaying their realisation.

Selected policies for growth and structural transformation

Prudent debt management in the near term needs to be supported by longer term measures to stimulate the growth of incomes and employment. In view of the uncertain and less favourable external environment facing Indonesia, there is a need for an even more careful husbanding of resources and new measures to strengthen the production base of the economy through efficiency improvements

and judicious investments. In particular, a vital task will be to foster the development of a broad-based and internationally competitive industrial sector leading to a rapid and sustainable growth of non-oil exports…

Under the present industrial and trade policy environment, large implicit subsidies are provided to several production activities for the domestic market, the costs of which are borne by the domestic consumer. In some cases, domestic value-added, when measured in international prices, is negative, indicating that in such activities the net contribution to the balance of payments is negative. By contrast, export oriented industries are disadvantaged by the present incentive structure because they have to use higher cost, locally-produced inputs. Indonesia's recent accession to the GATT Code on Subsidies and Countervailing Duties reflects the full recognition by the government that unless the problem of high costs is tackled directly, Indonesia's non-oil export drive is unlikely to achieve the desired level of success.

In response to excess capacity and low manufacturing growth, recent government policy statements emphasise the need to encourage exports of manufactures. In April 1985 the government reduced both the level and the range of import duties. A reduction in the cost of imported inputs should improve the competitiveness of a wide range of Indonesian industries. On the other hand, several other recent government actions are likely to be counterproductive to the export drive. In particular, quantitative restrictions on the import of an increasingly wide range of products, and the nature and pace of deletion programs to encourage the local content of a number of engineering goods, could encourage potentially costly and uneconomic upstream investments.[6] Such investments create the risk of imposing a long run cost burden on downstream industries, thus jeopardising the cost competitiveness of exportable products…

The overall thrust of industrial policy needs to emphasise a shift towards a more cost competitive industrial structure oriented towards exports… A clear enunciation of a policy that new industrial investments would be required to be efficient by international standards would help set a better framework for both private and foreign investment.

There are several areas where Indonesia probably has a strong dynamic comparative advantage in international trade. One example is light engineering products, which use relatively labor-intensive techniques of production. Existing firms in this subsector already exhibit potential for international competitiveness. The mastery of the technology used in these subsectors could provide the necessary base Indonesia needs to undertake more complex production processes…

The promotion of capital-intensive producer goods industries, in addition to imposing immediate strains on the balance of payments, will substantially reduce the scope for creating gainful employment opportunities. Greater emphasis, therefore, should be given to encouraging the growth of industries which have a greater labor absorption potential, as well as to increasing efficiency and export orientation in manufacturing production… Attention also needs to be paid to the

relative role of small-scale, as against large, production units. The experience of other countries indicates that the best way of sustaining the growth of small-scale production units is to encourage a broadly dispersed pattern of demand growth and to remove favoured treatment for large-scale firms.

Trade policy reform is one of the most difficult tasks facing any government and the process must be carefully managed in order to minimise the problems of adjustment… The longer present policies continue, the more difficult and more costly becomes the task of improving the efficiency and international competitiveness of domestic industry. The present report…suggests two areas which are fundamental to such an effort. First, it is important to refrain from introducing new bans and quantitative restrictions and begin to replace existing ones with tariffs… Second, over the medium term it would be essential to effect a further reduction and greater uniformity in tariffs. During the transitional period to a less protected environment, there would be a need for assistance to those industries which have the potential of becoming competitive in the medium term…

As half of all fixed investment in the economy is managed by the public sector, the planning and implementation of the public investment program has a crucial bearing on the goals of efficiency and employment creation. The report takes the view that the public investment priorities proposed for *Repelita* IV are broadly appropriate… The composition of public investment…has a significant impact on employment. Relative shifts towards less import intensive sectors as reflected in *Repelita* IV allocations…increase direct and indirect employment effects. There are many expenditure options with high economic rates of return that are relatively labor-intensive: for example, construction and rehabilitation of tertiary canals, rural roads, as well as regular maintenance of infrastructure. While the employment objective should not be the sole determinant of sectoral investment priorities, care should be taken to protect labor-intensive activities in the event of resource constraints or a worsening of the employment situation.

Sumitro Djojohadikusumo (1985)
BALANCING MONETARY AND INDUSTRIALISATION POLICIES

From a guest lecture originally delivered at the first graduation ceremony of the Indonesian Management Development Institute (IPMI) on 22 August 1985. This excerpt is taken from its subsequent publication as 'Nilai Tambah, Lapangan Kerja Produktif, Neraca Pembayaran: Sebuah Peringatan mengenai Serangkaian Pedoman Dasar dalam Pengendalian Kebijaksanaan' (Value-Added, Productive Employment and the Balance of Payments: A Warning for Policy-Makers), *Kompas* 28–30 August.

The major economic challenge we face at the moment involves two interrelated issues with important implications for short- and long-term political and social stability: 1) how to maintain and possibly increase the real level of income, given our limited natural and financial resources; and 2) [how to provide] productive employment opportunities for an ever-increasing population, including younger members of the workforce who are moving increasingly to urban areas… In the last few years I have increasingly come to see the issues of employment and unemployment…in developing countries as a question of the ability to increase real incomes…[Creating] employment opportunities that generate income not only means an expansion in the range of human activities, but, perhaps even more importantly, means increasing productivity and incomes in both 'traditional' and 'newly developing' sectors… Productive employment opportunities involve what I call the 'burden of dependency,' namely the number of people supported by each worker in active and productive work. To increase the share of our workforce in productive employment involves continually striving to reduce this 'burden of dependence,' because at this stage in our country's development it is still too high. In this context, providing productive employment is important to deal more efficiently with problems of absolute poverty and relative gaps in income and welfare.

The pretext of 'equity'

In both economic thinking and economic policy formulation, people often have the common misconception that there is an inherent dichotomy between efficiency and equity In its more dynamic version, there is [the idea of] a 'trade-off' between growth and equity—[but this is] just another protracted and unproductive debate. It is unproductive because this dichotomy is an assumption rather than reality, and is therefore irrelevant.

Considerations of equity are too easily made the pretext to defend the interests of particular social groups. This kind of 'equity' is partial and temporary. It contains the seed for new and more serious forms of inequity, because if rapid improvements in productivity are not made, there will be a decline in the real income of the majority of the population. From the point of view of the economic system as a whole and of society in general, it is an efficient system that creates equal distribution between social groups and reduces regional differences. Consequently, I am prepared to state that an absolute precondition for realising the goals of equity and social justice is adherence to economic efficiency as the primary principle upon which policies are based.

Net value-added

[The term] 'value-added' has recently been used more and more widely, perhaps because it is an attractive term which can be used by anyone, and is an appropriate slogan for a whole range of groups and special interests. This sort of

one-dimensional approach towards a fundamental problem can easily backfire, causing harm and disappointment. This approach is also contradictory to economic development and social progress.

We cannot avoid the question: value-added at what cost? The question is particularly relevant in view of the limited financial and other resources I mentioned at the beginning of this lecture. And in terms of domestic production, at what level should value-added be sought, and what should be the cost structure? I ask this question in view of the low purchasing capacity of most of our population and the low effective demand [in our economy]…

It is certainly significant that the President suggested in a speech this month that industry must strive to continually 'improve the quality of its produce and increase its economic efficiency so that it can reduce costs and compete with imports from overseas…' Consequently, net value-added must be measured with respect to the use of domestic funds and resources, while also taking into account the foreign exchange implications…

For economic efficiency and the organisation of society, value-added and the use of resources must take into account their opportunity costs, involving considerations of productive employment opportunities and the external balance of payments. To seek value-added just for its own sake without paying attention to productive employment will invite social unrest and political instability. To ignore the external balance of payments will deliver our country into the bondage of international debt that has trapped so many Third World countries…

Consequently, state policy must be directed towards changing structural imbalances and disparities. Development can thus be considered a process of continual structural adjustment. The framework and pattern of policies that will bring about real change and structural adjustment have three inter-related and inter-dependent dimensions, namely growth in value-added, productive employment opportunities and the balance of payments.

Reducing protection

In August this year the President reminded us that policies to encourage and extend domestic industrial production must not become a basis for pampering industries. But I fear that such pampering has occurred in certain cases which are easy to identify This situation has been encouraged in the last few years by trade and tariff policies applied with the excuse that they are for industrial development…

I have the impression that our policy-makers, leaders of business associations and the Chamber of Commerce and Industry (KADIN) don't really understand the concept of the effective rate of protection or its components. I hope that this lack of awareness is because they have not been exposed to the concept, and is not because of apathy—or because they are consciously ignoring it [to protect] special interests. I nevertheless suggest that more…detailed discussions be held

amongst our decision-makers,…between private sector leaders and their associations, and amongst economists and technicians…

It is true that tariffs on certain goods have generally been reduced. Yet there are imbalances in the tariff structure, with quantitative restrictions applied for no good economic reason and without clear guidelines, causing all sorts of distortions. In a number of cases, this has meant that the least efficient industries enjoy the greatest effective protection. This problem will exacerbate inefficiency and excessively high costs will persist if not solved quickly. This situation does not favour the interests of the majority of our population, namely low income social groups. In the end, it will delay the development of industries which are strongly based. The combination of this tariff structure and administrative constraints…also obstructs the more rapid growth of productive employment opportunities.

Sectors producing and assembling consumer goods are highly protected, but sectors producing capital goods and intermediate inputs receive a very low level of protection. There is thus an incentive from within industry itself to import a large amount of capital [goods] and use a relatively small amount of labour. The structure of protection encourages investment in sectors with limited potential to increase employment opportunities. This tendency is felt increasingly in protected high-cost upstream industries (which produce goods needed for down-stream industries that use more labour) that can force their clients to use their products. This situation can obstruct the growth of downstream industries and employment opportunities in these industries.

The current pattern in the manufacturing sector is thus for many goods 'produced' in Indonesia to be actually assembled from components, almost all of which are imported.

Overcoming contradictions

Interestingly, the tariffs and licences for trade and industry of the last few years actually contradict the government's own stated policies, namely to reduce high costs and encourage private sector activity with deregulation, restructuring and the simplification of procedures. Since early 1983 the government has launched a series of bold and very important policy measures, namely fiscal policy and budgetary programs which have been adjusted to respond to changed conditions. These measures have included drastically reevaluating and then postponing mega-projects, restructuring the monetary system, adjusting exchange rates, and reorienting the role of banking institutions. And in order to expedite the flow of goods and services to and from overseas, as well as within the archipelago, with the announcement of Inpres no. 4 at the beginning of 1985 inspection procedures for customs and the administration of ports and airports was totally reorganised. This stimulated and encouraged production, transport and distribution. At the same time, however, these policies were neutralised by the paralysing effect of

numerous trade and industry regulations, by restrictive import quotas, and by limitations on production closing many sectors to new entrants.

Although we can say that quantitative restrictions were the exception rather than the rule during the decade of the 1970s, trade and industry licensing and regulation practices increased once more in 1982. They have increased continually ever since. Often in alliance with business associations or particular interests, various departments and government agencies have made 'recommendations' pressuring the Department of Trade to do this; there are now more than 1,000 products subject to import and licensing regulations.

We are thus now caught in the middle of two forces moving in opposite directions… Many current regulations are too easily defended with the excuse that they support domestic production and infant industries. It is generally accepted that infant industries need protection in order to allow learning processes to take place. I agree, as long as it is in the context of broad, step-by-step policies geared towards economic efficiency as determined by the interrelated criteria of net value-added, productive employment opportunities and the balance of payments.

Adjustments

Such a system would reduce distortions and simplify policy-making and administration, unlike measures which are often taken arbitrarily and on a case-by-case basis. At the moment, protection is provided case-by-case, on an *ad hoc* basis, and is accompanied by quantitative constraints. This creates business uncertainty and administrative delays—and also encourages corruption. The most effective trade and industry policies are those that generally emphasise uniformity and homogeneity rather than arbitrary decisions, and which give general, yet moderate, protection. In this case, it is most important to implement a fixed schedule to progressively abolish special restrictive 'facilities' to ensure that, within a reasonable period, infant industries develop into self-reliant industries.

What we have at the moment is precisely the opposite. The highest level of effective protection is actually enjoyed by the oldest, well-established sectors of industry and companies. Yet it is precisely these interests that still press constantly for even more protection and greater 'facilities'… If we surrender to arguments such as these, no matter how impressively they are formulated by lobbyists and pressure groups, we will be forced into a position of 'static defence', with no opportunity for innovation or modernisation.

Conclusion

When we look at the pattern and direction of industrial development, it is unfortunate that policies and policy proposals are limited to debating 'export orientation versus import substitution strategies', or an 'outward-looking

orientation versus an inward-looking orientation'. Such arguments…will continue and remain controversial. This may be due to the fact that certain economists and monetary experts proclaim their perceptions and findings, as if they were economic dogmas. It would be better if we avoided useless and irrelevant arguments about an export orientation being 'the road to heaven', or import substitution being 'the source of all evil'.

It is thus dangerous to interpret the link between externally-oriented policies and the growth of the national economy and per capita income in simplistic terms. For long-term development, it is quite possible that growth and outward-looking policies are the outcome of an earlier phase, that is, they follow from the success of inward-oriented policies. On this point, I believe that we still need competition from domestic and/or external forces in trade and industry. This is necessary to increase productivity and efficiency in the use of limited financial and other resources. It will also prevent strong vested interest groups from becoming extremely influential.

We should therefore consider trade and industry practices and policies an integral part of our effort to increase economic efficiency in social life. This must be carried out through the optimal allocation of productive resources, taking into consideration the interrelated dimensions of value-added, productive employment and the balance of payments. Given the fact that the Indonesian economy is so open, we need to be aware of the importance of expanding trade [to encourage] development in general. Trade is not only the main source of the foreign exchange we so greatly need. Expanding trade and trade revenue directly effects the national income, particularly the income of the majority who live from agriculture and associated activities. For both social and political reasons, it is important that the real income of these social groups be preserved.

World Bank (1986)
ADJUSTING TO EXTERNAL CHANGES

From Annual Country Report on Indonesia, 'Adjusting to Lower Oil Revenues', May, 'Summary and Conclusions': v, vii-xvii.

Since December 1985 the price of oil has fallen by about half, posing a major challenge for macroeconomic management. Great uncertainty remains about the future course of oil prices, but it is clear that Indonesia will need strong measures to ensure stability in the balance of payments and the government budget, and to prepare the framework for a revival of economic activity when the resource constraints begin to ease.

External shocks and adjustment strategy

The macroeconomic task ahead for Indonesia has two interrelated aspects. First, there is the critical short-term objective of ensuring that the balance of payments remains manageable and that domestic financial stability is maintained with minimum cost to medium-term growth. The second aspect relates to the implementation of structural policy reforms aimed at enhancing efficiency along a broad front and increasing foreign exchange earnings and domestic savings from the non-oil sector, so as to pave the way for the restoration of sustainable growth in investment, incomes and employment over the medium and longer term. The policies and measures to be pursued to achieve these ends are entirely complementary… The 6 May 1986 package of measures to promote non-oil exports and foreign investment represents a promising beginning in improving the framework of policies and regulation that currently induce or protect inefficiency. The challenge now before the government is to maintain the momentum of policy reforms so as to establish an efficient basis for renewed economic growth and financial stability…

As the improvement in Indonesia's external payments situation will have to be brought about mainly in the trade rather than the capital account, the growth of non-oil exports assumes major importance… In the near term, Indonesia's primary exports face soft markets while those for manufactured exports will be highly competitive and face renewed threats from protectionism. The rate of growth of Indonesia's non-oil exports depends crucially on the policy framework affecting exporters' incentives. An encouraging start has recently been made in improving the profitability of export activities. The May 6 package provides a greatly improved policy framework for exporters… If these provisions are implemented effectively, they should be of considerable help in sheltering exporters from the burden of high cost domestic industries…

Nevertheless, total earnings from merchandise exports this year and the next would fall below the level achieved in 1985… Given the magnitude of the shortfall in oil/LNG export earnings, it is extremely unlikely that non-oil exports can fully compensate in the next few years. Consequently, an adjustment strategy designed to keep the current account deficit manageable would in the short run necessarily restrain aggregate demand, and hence import levels. Capital goods would bear the brunt of the import reduction if adequate supplies of intermediate inputs for domestic industry and export growth are to be maintained.

Policies for economic recovery

The macroeconomic analysis of this report indicates that restraint of demand is inevitable in the short run. This would have an adverse impact on the growth of incomes, output and employment… There is a risk that the slowdown in economic activity may cause a downward spiral in economic performance and expectations that may become difficult to reverse. While moving firmly to

restore stability in the balance of payments and government budget, it is recommended that macroeconomic policy also aim at minimising the economic decline during this transition period and at setting the framework for the revival of economic growth and investment in subsequent years, as the resource stringency eases.

The key requirement in meeting both these objectives is to raise the efficiency with which scarce resources are used by the public and private sectors. For the private sector, the primary role of government is to improve the framework of regulations and incentives in which private investors operate, reduce unwarranted cost burdens, and provide support in cost-effective ways. An important step in this direction was taken on 6 May with the introduction of significant measures to facilitate the entry of foreign capital and to improve the operating environment for foreign investment projects. In the public sector, the primary need is for faster improvements in implementation and management performance. Provided the policy measures needed to bring about a more integral part of the adjustment process, Indonesia could attain a growth rate of 3–3.5 per cent p.a. in output and incomes towards the end of the 1980s, and accelerate it to 4–4.5 per cent in the early 1990s. As extensively discussed in last year's report, growth rates of these orders of magnitude are essential for the effective absorption of the growing labor force…

Providing Indonesia does not encounter increased protectionism, the key determinant of future non-oil export growth will be the policy framework supporting non-oil exports. With favourable policies, non-oil exports can make a significant contribution to both the balance of payments and employment creation. The 6 per cent growth rate projected for non-oil exports would directly generate one million new jobs in the economy over the next ten years. However, such a high growth rate will not be achieved easily. Indonesia has a strong agricultural and mineral resource base which offers the potential for continued growth, but overall performance will largely depend on a vigorous manufactured export growth rate. There are three crucial elements for a successful policy effort. First, a major shift in the direction of industrial policy will be required…to reduce the incentive to set up high cost industries catering to the domestic market and the bias against exporting industries. Second, a competitive exchange rate policy is essential for maintaining the profitability of exports and encouraging resource flows into export activities. Finally, the commercial and financial community needs to develop new services geared to supporting exporters' special needs.

NOTES

1 The classic description of the patrimonial pattern of state-business relations in Indonesia is that of Crouch (1979). A good example of the expansion of private capital through the manipulation of state connections under the New Order is the

growth of the Sutowo/Pertamina complex (Robison 1986: 350–358). A number of Sino-Indonesian conglomerates increased their economic power enormously during the 1970s and 1980s, but are still vulnerable politically and remain dependent on political protection (Mackie 1990).

2 The report and its political ramifications are discussed fully by Sacerdoti (1981). See also Manguno (1981) and Robison (1986:379–385).

3 On the 1985 report's departure from its previous oblique criticism of policy, see Lincoln Kaye (1985), who notes that the report 'does not flinch from blowing the whistle on specific industries'.

4 This is noted, for example, by Sacerdoti (1981:44).

5 At this time Nasution (1984), for example, wrote an essentially liberal analysis of the implications of the fall in oil prices.

6 These 'deletion programs' involved the progressive substitution of local products in imported kits of electronic products and, particularly, vehicles. After being suspended in the late 1970s, the deletion program for automotive components was recommenced under controversial circumstances in 1979 and reaffirmed in 1983 (Chalmers 1996).

5
The populist critique

INTRODUCTION

Social justice issues continued to feature prominently in the debates on economic development strategy in the late 1970s and early 1980s. They were, however, increasingly taken up by actors who were more clearly outside the state apparatus than such 'society-first' critics of Chapter 2 as Sarbini Sumawinata and Soedjatmoko. In part, this had to do with the resilience of the student movement in the face of state repression and the burgeoning of non-government organisations (NGOs), usually established by individuals formerly associated with the student movement. Despite its economic achievements, the New Order government continued to be unable to deflect criticism that, while pursuing rapid growth, it paid insufficient attention to efforts to alleviate social inequities and the eradication of poverty. Such criticism had considerable political ramifications. This is because it touched upon such politically sensitive subjects as ethnic Chinese dominance of the private sector and the accumulation of wealth by well-connected individuals. As we shall see in further chapters, these issues remain controversial to this day.

An important source of ideological legitimation for the New Order is the claim that it seeks to implement the ideals of *Pancasila* and the 1945 Constitution 'purely and consistently'.[1] Born of the nationalist, anti-colonial struggle, these ideals have come to symbolise a strong commitment to egalitarian, if not anti-capitalist, objectives. As we have seen in Chapter 3, the *Pancasila* and the 1945 Constitution can provide the ideological justification for a dominant role for the state in the economy. But they also embody the notion that the state should use its power to realise the ideals of social justice.[2] Thus, like the nationalists in that chapter, populist critics of the New Order have found ideological legitimation in the *Pancasila* and 1945 Constitution. Furthermore, they have often been able to couch their attack in the language of the official discourse on economic development.

In the early years of the New Order, criticism of the government was particularly directed at the activities and practices of specific officials or individuals with political connections. As we have seen, cases of corruption,

nepotism and favouritism were mentioned in the lively Jakarta press of the early 1970s. At this stage, such cases were mainly treated as unfortunate, if serious, aberrations in the implementation of fundamentally sound policies. However, as the problems of economic development became more complex, the persistence of poverty and social inequities came to be given a structural dimension by a new, more distinct group of 'populist' critics. Increasingly, the source of evils seen to plague the economy was identified by such critics as the total prevailing economic and political system. While some resorted to an idealisation of traditional lifestyles and indigenous values marginalised under the impact of capitalism, others incorporated theories and concepts developed overseas into their critique of New Order economic policy. Thus, dependency and neo-Marxist theories became very popular in the 1980s. Most commonly, populists combined both 'domestic' and 'foreign' elements in their formulations.

The following selections represent some important contributions to the debate on economic development strategies in the 1970s and early 1980s. The populist traditions developed during these years have generally persisted, and still constitute a common critique of development policy. It is therefore useful to examine some of these themes more closely.

The first selection is from the so-called 1978 'White Book' of the Indonesian student movement. Student activists were prominent in the early history of the New Order, and can claim to have been part of the loose coalition that brought Soeharto to power. However, by the early 1970s students began to criticise the abuse of power and corruption by figures close to Soeharto. The partnership between students and government had certainly ended by the time of the Malari riots of 1974, when student protests against foreign and ethnic Chinese domination of the economy were forcefully suppressed by the security forces. Written by **ITB (Bandung Institute of Technology) Student Council** in 1978, when students were protesting against the nomination of Soeharto for a third successive Presidential term, the 'White Book' displays their continuing concern with issues like foreign and ethnic Chinese domination of the economy, the extravagant lifestyles of the elite, and the social dislocations caused by government policy. It is significant, however, that the student movement of the 1970s did not experiment with forging alliances with workers or the peasantry, as would their counterparts in the late 1980s and early 1990s. In contrast to the language of the latter generation of student activists, who demonstrate their confidence in the 'masses', in the White Book the 'common people' are depicted as ignorant, emotional, and therefore likely to be victimised by social upheavals. In this context, the document's warning of a possible resurgence of communism is noteworthy.

Apart from students and NGO activists, academics have also been instrumental in ensuring that social justice issues remain at the forefront of national debates on economic development strategies. One of the most prominent of such academics is **Mubyarto,** a respected economist from Gadjah Mada University in Yogyakarta. The article below, on the role of cooperatives, triggered one of the

most famous debates on the objectives of government economic policy. In Indonesia, cooperatives are commonly presented by the government as the ultimate symbol of the egalitarian ideals of the *Pancasila* and the 1945 Constitution, as well as the manifestation of traditional Indonesian values. In a similar vein, Mubyarto argues that an economic system truly based on *Pancasila* must give priority to cooperatives, as they are an instrument of the poor. However, he is also keenly aware that cooperatives have in fact had little influence in the development strategy implemented by the New Order. Here, Mubyarto goes on to attack subtly New Order economic policy in precisely those terms to which state officials are most vulnerable, suggesting that it has in fact been much more 'liberal' and less 'Pancasilaist' than admitted in official rhetoric.

Arief Budiman is another academic well-known as a spokesman for social justice issues. A former student activist who was involved in the 1966 movement that was instrumental in toppling the Sukarno government, he subsequently became an outspoken critic of the New Order and of the capitalist path of development. The piece selected here represents his response to the polemic on the *Pancasila* economy initiated by Mubyarto. He criticises Mubyarto for presenting the *Pancasila* economy in normative terms, without regard for its basic incompatibility with the existing economic system. Significantly, Budiman does not differ with Mubyarto in essentially upholding the communitarian and egalitarian values embodied in the *Pancasila,* while arguing for their compatibility with socialist objectives. Rather than advocating limited corrective measures to realise the ideals of *Pancasila,* Budiman suggests that only fundamental structural change would make them viable—the transformation of the Indonesian economy from one that is capitalist to one that is socialist.

As mentioned earlier, another source of populist criticism of New Order economic policy has been the NGO community. In the early 1970s many intellectuals, some of whom had been active in the 1966 student movement, began to promote the development of these 'Non-Government Organisations'. Such NGOs were meant to constitute a countervailing force to what they regarded as the increasing bureaucratisation of life resulting from the consolidation and expansion of the New Order state. A good example is **Adi Sasono,** one of the founders of Jakarta's 'Institute of Development Studies' (LSP), and a co-author of the selection that follows. This piece, written in conjunction with the economist **Sritua Arief,** is an attack on New Order economic policy in terms of dependency theory. The framework was largely borrowed from the analysis of underdevelopment in Latin America common in development literature in the 1960s and 1970s. Indeed, such ideas gained much currency in more radical circles in Indonesia in the early and mid-1980s. Among the ideas which Sasono and Arief advance in this selection is that the contemporary Indonesian economy is a continuation of that of the Dutch colonial period. Consequently, they suggest, New Order economic policy has only succeeded in perpetuating Indonesia's dependent position in the international economy. They also argue that the impoverishment of the Indonesian people is

not the result of the malfunctioning of the existing economic system, but is in fact a necessary result of the system itself. Again, echoing the radical prescriptions of dependency theory, they suggest that realising the goal of social equity requires fundamental structural change.

Dawam Rahardjo, a former director of Jakarta's Institute of Economic and Social Education, Research and Information (LP3ES) is another intellectual closely linked to the NGO movement. Like Adi Sasono, he is also a Muslim activist. His piece represents an interesting combination of an essentially dependency-based analysis of Indonesia's contemporary economic situation, and a populist, almost romantic, appeal to the 'patriotism, morality and religious values' which he claims have been 'eroded sharply because of the growth of materialistic values'. Like Sasono and Arief, Rahardjo suggests that the modern Indonesian economy is essentially unchanged from that of the colonial period. That Indonesia is ruled by a 'repressive developmentalist regime', he suggests, is the political expression of this economic fact.[3] Like other populist critics of the New Order, Rahardjo is not overly impressed with the high rates of economic growth it has achieved because of the presence of social inequities. Advancing the notion of 'structural poverty', he suggests that widespread poverty in society is inextricably related to the wealth and prosperity enjoyed by a small segment of society and foreign elites.

Vedi R.Hadiz

ITB Student Council (1978)
THE WHITE BOOK OF THE STUDENT STRUGGLE[4]

> Excerpts from what was popularly known as the 'White Book', the full title of which was 'Manifesto of the Students of Bandung Institute of Technology' *(Pernyataan Sikap Mahasiswa ITB),* 14 January. Note that words emphasised are as in the original.

Freedom![5] It is time for us to plot the course of the student struggle in the midst of the failed development efforts of this, our beloved country. As members of the younger generation, it is no exaggeration to say that this will manifest our responsibility in giving meaning to national independence… This White Book not only mentions instances of mistakes in implementation, but emphasises that it is in fact the policies themselves that are wrong. Negative results have come from the wrong policies…

The inner voice of the common people, who are repressed and suppressed by the power of the elite, is never heard by the government. Neither does the government ever try to listen to the pure and genuine voice of the common people. For the urban way of life exploits people in the countryside, the rich suppress the poor, private cars push aside public buses, the stupid rich shove off the clever poor, *non-pribumi* business groups [Chinese, ed.] kill *pribumi*

businesses. This situation cannot be prevented by those who are suppressed, and even parliament no longer voices its concern.

Nowadays, everyone 'on top' directs their attention upwards. They scramble to enjoy the luxuries made freely available by the liberal economic system implemented by the government! The situation has gone so far that it is one of the main reasons that checks on government[6] do not work as they should. State institutions are in fact 'tuned' so as not to hinder the accumulation of executive power. In the name of stable economic development, the operations of all major state institutions are 'adjusted' to suit the tastes of the executive…

Many development policies fail to benefit the masses. The government only pursues the increase of GNP, but forgets everything else except this target. It has forgotten principles such as social justice, national resilience, self-respect and national culture. Seventy per cent of foreign investment is in the city of Jakarta. The remaining 30 per cent is scattered throughout Indonesia. Where is the social justice in this? If so, then who is truly not *Pancasila-ist*? The government or the students? If our brother, President Soeharto, does not oppose such distorted policies, then he must support [the students].

Most of the credit facilities [provided by] the government fall into the hands of the *non-pribumi*. And many of those who manipulate the use of such credit are also *non-pribumi*. But those who have to carry the burden of all of this are the people! Most of the Rp 200 billion of the credit lost by Bank Bumi Daya [a state bank] was used by non-*pribumi*. It was the people who bore the costs, but *non-pribumi* who enjoyed the benefits… It is in fact these people whose per capita income has increased many times over, not the people.

Ten years ago the Astra Group, the Panin Group, Bank Central Asia, Liem Sioe Liong and other *cukong*[7] were nothing compared to what they are now. But the people in Krawang still go hungry. The government is always proud to add the income of these *cukong* to that of the people of Krawang, Boyolali, Gunung Kidul, and then average them out. Then the government loudly proclaims that 'per capita income has risen rapidly'. Isn't this manipulation? The people in Krawang, who have been forced to eat *eceng gondok,*[8] are the victims of statistical manipulation, of the figures deified by the government. They tell us that in 1967 per capita income was US$80 and in 1977 became US$130. Krawang was for many years a rice bowl and its people never knew hunger. But the fact is that it has declined, it is now hit by famine, and its people are eating *eceng gondok!* And do you know what *eceng gondok* is? It's pig feed!

But in the meantime, the incomes of the people of Glodok, Pintu Kecil[9] and other *non-pribumi* has risen many times over. Is development really for them?! They who made no contribution to the war of independence now take the greatest share of the benefits of development. How come?…

Do we still have any pride as a nation? Do we still have a sense of nationhood? Well, do such things still exist…when it has been officially admitted that we have not yet become 'masters in our own country'. We can't stop foreign factories from operating in our homeland, even though they emit

fumes that are dangerous to breathe, pollute our rivers and damage our ears with loud noises.

In Gamut, West Java, a foreign company has dug bores which have caused the wells of people in surrounding districts to go dry. In the name of the 'development' of industrial centres, luxury hotels and real estate complexes, the people have to 'allow' their homes and rice fields (their working capital) to be bulldozed. They're not able to prevent it even though they are the legal citizens of this country!!!

What is even more serious is that we have now become good 'copycats'. To formulate our 'development policies', we uncritically swallow data and analyses done by foreigners, who, of course, have their own interests. We use the data and analysis of the World Bank to determine the number of people below the poverty line. And to measure development success we use the methods of foreigners to measure the growth in GNP, GDP, income per capita, etc

The great danger presented by the growing gap between the rich and poor is that it *invites the rebirth of communism in our country!* We have actually been caught in the situation which communists want, namely the people who live in poverty become poorer and the rich grow richer… We know the great danger threat of communism… So the situation in our country must be changed! Justice must take the place of inequity, the law must be upheld for every citizen without exception, consumerism must be abolished, corruption eliminated, creating a government that is clean, authoritative and which has the faith of the people.

This is why students are on the move and taking up the struggle! The situation is in need of drastic change, so our struggle has two objectives, namely to replace Soeharto at the March 1978 session of the National Assembly (MPR) and to change the national development strategy. We students definitely do not want an outbreak of anarchy, because that will sacrifice the lives of the common people, who know nothing and tend to be more emotional.

After the MPR session in April we must have a new President and a new government, able to eliminate the deficiencies that now exist. We repeat, the struggle of the students is to bring into existence a government that is clean, one that is based on a pure version of the 1945 Constitution and *Pancasila*.

With God's Blessing,
ITB Student Council

Mubyarto (1979)
COOPERATIVES AND THE *PANCASILA* ECONOMY

From 'Koperasi dan Ekonomi Pancasila', *Kompas* 3 May 1979; reprinted in Kompas, *Mencari Bentuk Ekonomi Indonesia, Perkembangan Pemikiran 1965–1981,* Jakarta: PT Gramedia, 1982, from which this excerpt is taken.

I have never learnt so much in such a short time about economic theory from people working in the field… The Indonesian Council of Cooperatives *(Dekopin)* held a seminar in Jakarta on 3–5 April 1979 on how cooperatives, state corporations and private companies could work together. Unlike other seminars I have attended, I was pleasantly surprised, satisfied that I learnt a great deal… I was lucky to have participated because, as an economist, I am guilty of never having thought seriously about what the 'Pancasila Economy' was supposed to be. Now I was really made to think. And those who made me think did not realise that they knew so much, but have never had the opportunity to tell their thoughts to other people.

It began with the paper by Mr Yan Mokoginta (of the Indonesian Chamber of Trade and Industry, 'KADIN'), who critically examined why Indonesia's cooperatives have developed so slowly. There were responses from three prominent businessmen: Djukardi Odang (state corporations), Probosutedjo (Mercu Buana) and Soertiono (Inkopad). Without being aware of it, their discussion reached to the very core of the economic system we have used, not just during *Repelita* I and *Repelita* II, but even since Indonesia won its independence… In his paper, Dr Mokoginta stated that the cooperatives had failed to develop because of the wrong economic development strategies, which were too liberal-materialistic and ignored familial-spiritual aspects. While there were some objections to Mokoginta's main thesis, there was nevertheless also a striking consensus. Namely, that our economic system is still a very long way from a *Pancasila* economic system, and actually resembles capitalism… Mr Odang and Mr Probosutedjo had no hesitation in describing our economic system as truly one of economic liberalism (especially during *Repelita* I and II).

Although in the past it was very easy to deflect such criticism because it generally came from 'immature students', 'oppositional' groups and parties, or 'over-critical scholars', I was now struck by the fact that these opinions were being expressed by major *pribumi* private businessmen and prominent leaders of state enterprises…

Capitalism vs. socialism

So how do we classify our own economic system? Finding an answer is not easy, and involves all sorts of value judgements. Many of us would like to say that our economic system is socialistic because Article 33 of our 1945 Constitution says so, while the Broad Guidelines for State Policy (GBHN) mentions no other system… It is also easy to say that our political economy was unstable when we attempted a liberal system (1950–1959), and that only after we returned to a 'Guided Economy' did we find the right path. Later, when the PKI-30 September Movement took place, it was shown that ignoring the *Pancasila* almost brought us to disaster. There is therefore no question but that our economic and political system must be built on *Pancasila,* and that our economic system should be based on populism (economic democracy) and social justice (socialism).

Why then, in this thirteenth year of the New Order, at a time when *Repelitas* I and II are considered to have been successful, do figures from the private sector and state enterprises have no hesitation in accusing our economic system of being liberal? I'm sure many people are confused.

To return to the main point of this discussion, why have cooperatives declined and been left far behind by state corporations/ private companies? As Ir Hamzah Junusur and Dr Djunaedi asked in their papers, why is it that the public shows little interest in cooperatives as a form of enterprise? Why do they prefer to establish private companies? Discussion of these two papers became quite 'heated'…

Mr Damanik, a senior figure in the cooperatives movement, eventually exploded. With great conviction, he said that Indonesia's cooperatives had not been able to develop because the government lacked the political will… Certain that cooperatives must have a [major] role in Indonesia, Mr Damanik gave a theoretical analysis of cooperatives in both capitalist and socialist societies. In the capitalist system, cooperatives are only one of many forms of enterprise. To be successful, cooperatives must be able to compete with other enterprises. Mr Damanik believes that this form of cooperative should not be promoted in Indonesia. Then what is the role of cooperatives in socialist states? In the socialist-communist system, cooperatives only serve as agencies to implement policies already laid down. Clearly, cooperatives are not the instruments for [social] struggle…

The plenary session ended with Mr Damanik's presentation. No clear conclusion could be arrived at on what should be distinctive about Indonesia's cooperatives, or what should be their role. It was even less clear what a *Pancasila* Economy was, and how to make it work. For example, if *Pancasila* Economics must come from Indonesia's own soil and not just be a copy of foreign models, be they capitalist or socialist, then theorists face a particularly difficult task…

What must be done

Whenever I am asked, what should be distinctive about Indonesia's cooperatives, I answer, I don't know. I really don't know. What I do know is that if we really think that the most appropriate economic system is a *Pancasila* economic system, then we cannot allow competition to be too free. There are two ways to do this: by protecting the weak (for a limited period of time), and by restricting the strong so that monopolies and *etatisme* do not develop. Have these been carried out? I don't think so, especially the second, namely placing limits on the power of the economically powerful.

We can only expect cooperatives to take their proper place if the economy is socialistic, and if such policies are already being implemented effectively. Cooperatives must obtain a range of incentives and protection so that they don't have to compete unnaturally, as has been the case until now. Nevertheless, in my

opinion cooperatives cannot be merely be 'one of three forms of enterprise' in the *Pancasila* economy They must truly constitute the instrument for the struggle of weaker economic groups, advancing their business and improving their welfare…

People's intention in joining together to form a cooperative is not merely to open a new venture, such as establishing a transport company, hotel or night club. The primary purpose of a cooperative must be to 'link up' with the lives of its members. In other words, a cooperative must become an extension of the businesses and households of its members, enabling these enterprises to become better, more effective and more efficient For me, such cooperatives truly constitute instruments in the struggle of members who are weak individually, but who gain strength by combining.

According to my own observations, people in Indonesia are still rather confused about cooperatives. For many people, including our thinkers, cooperatives mean different things. I hope that the Indonesian Council of Cooperatives *[Dekopin]* retains its fiery determination to promote cooperatives, [and] I am sure this…will give substance to what we call the Pancasila economy: an economic system that is not too liberal, not too subordinate to the government *(etatisme),* and one that does not lead towards monopolies. Unfortunately, this seminar…has concluded that it is precisely such features which are not desired by the GBHN that operate in our economy, causing cooperatives to lose all their vigour.

Arief Budiman (1982)
A SOCIALIST *PANCASILA* ECONOMIC SYSTEM

From 'Sistem Perekonomian Pancasila, Kapitalisme dan Sosialisme' (Capitalism, Socialism and the Pancasila Economic System)', *Prisma,* January 1982:14–25. Note that words emphasised are as in original.

Ever since the early 1970s people have been dissatisfied with the economic policies of the Soeharto government. These economic policies have had no clear direction, a result of the government's pragmatism. As the daily newspaper *Sinar Harapan* put it:

> people have given more attention to ideology since 1975. This is not simply in response to events taking place within Indonesia. The phenomenon is also due to a greater awareness that the pragmatic way of doing things that has become such a hallmark of our development must be placed within a framework that gives it a greater sense of purpose…[a]

This editorial is, in fact, indirectly expressing opposition to development policies which do have a clear ideology and purpose. The ideology is capitalism, and the purpose is rapid growth—if need be by postponing equitable distribution…
This dissatisfaction has manifested itself in the form of sharp criticism in academic circles. In November 1979 a seminar held by the 'Indonesian Association for the Development of Social Sciences' (HIPIS) in Malang focused on the issue of poverty. It was at this seminar that there was first introduced the concept of 'structural poverty'[10]… In other words, poverty today is the product of an economic system inherently incapable of solving the problem of poverty.

How does Mubyarto attempt to respond to this challenge with his 'Pancasila Economic System'? Firstly, he doubts that neo-classical economic theories are appropriate for *Repelita* III [1979–1984]… According to Mubyarto, *Repelita* III must be based upon a new economic theory. Citing Keynes, Mubyarto states that 'different objectives cannot be achieved just by different policies or strategies. We must also change the theory'.[b] Then what is the new theory which Mubyarto wants to develop called the *'Pancasila* Economic System' (PES)? From Mubyarto's published writings, lectures and interviews it is clear he has only succeeded in drawing the boundaries of the area within which he expects to find the 'animal' he calls the PES, while occasionally trying to guess exactly what it is. In other words, the search continues…

For Mubyarto, his prey is not to be found in the jungles of capitalism or socialism… He rejects capitalism because this system 'mostly assists those who are already economically powerful'.[c] He also rejects socialism because, for Mubyarto, it is a system of a planned, regulated and statist economy *(etatisme)*.

> Clearly, a regulated economy is antithetical to the most fundamental purpose of the *Pancasila* economy, namely that it be a vehicle for the development of a 'complete Indonesian person'… A *Pancasila* economic system must allow everyone the greatest opportunity to develop their individuality and self-reliance according to their personal skills and capacities.[d]

Does Mubyarto succeed in capturing the 'animal' he calls the PES once he has established these boundaries and successfully narrowed the hunt? I don't think he does. He states that the PES has five main features.[e] Firstly, cooperatives must be the central pillar [of the economy] because they are the most concrete form of common enterprise. Second, the wheels of the economy are turned by economic, social and moral incentives, distinguishing the PES from the capitalist economic system which only stresses economic incentives. Third, there is a strong popular will for greater social equity. This differs from capitalism, in

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[a] Editorial, 25 May 1979.

[b] *Kompas,* 2 May 1979.

which individuals seek only to maximise personal profits. Fourth, nationalism provides the inspiration for all economic policies. Fifth, there is a clear balance between national planning and decentralised economic activity.

These features appear like a list of wishes which bear no reality to the real world. The problem is, how can a system of cooperatives based on social welfare survive in a capitalist system such as that which exists in Indonesia, a system in which personal profit is the driving force for growth in the nation's economy? The same basic question can be asked of the other features: can social and moral incentives be effective in a capitalist economic system? Certainly, there is a strong desire from a large section of society (not *all* of society as Mubyarto states) for social equity, a desire which of course comes from the common people. But there is also a strong desire from another social group which does not want the equal distribution of wealth, a group which is very small in number but also very powerful because it holds key positions in politics and the economy The problem is, can the strong desire of the larger part of society defeat the power held by this small group that does not want equal distribution? And so it is with nationalism. Can members of the Indonesian elite who benefit personally from the foreign capital which destroys national enterprise suddenly become patriotic and place the national interest above their own personal interests? The fine intentions which are the features of the PES are evidently not easy to realise because they are not relevant to the structure of the system which exists in Indonesia today…

Much of the literature on the PES is normative, decorated with words such as 'must', 'must not', 'incompatible' and 'inappropriate' … The tone of many of these writings is generally that everything would be fine *if only* Indonesians would fully comprehend and live their lives according to the *Pancasila*… There are even those who are so optimistic to believe that global issues like the North/South dialogue could be solved once 'the complete *Pancasila* person' had been moulded, 'people who are free and know themselves, people who are the Servants of God'.[f]

Major theories of economic systems have clear concepts of human nature, because it is on these concepts that these theories are constructed. This means that if we want to develop the theory of the PES then we have no choice but to explain our understanding of what constitutes human nature, specifically that of the Indonesian…—Clearly, the basic assumption of the capitalist system is that people are greedy and materialistic… [In] the capitalist system not only is human greed not dangerous, but constitutes the source of dynamism… Just leave it all to

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[c] *Kompas,* 2 May 1979.

[d] 'Retrospeksi dan Refleksi Mengenai Pengkajian Ekonomi Pancasila', a paper for panel discussion, Universitas Gadjah Mada, 19 September 1981:3.

[e] Editorials in *Sinar Harapan,* 19 May 1981, *Kompas,* 18 May 1981.

free competition in the market. Even the government is not permitted to become involved…

What is the concept of human nature in the socialist system? Let us look at the work of Karl Marx, whose writings underpin socialist movements throughout the world… Marx concedes that the people we meet every day are greedy and materialistic…[However], Marx believes that human nature is essentially social and not individualistic… For Marx, people can actually live in harmony with nature and with others. But the concept of private ownership in capitalism means that people fight to possess as much of nature as possible… Only by abolishing private property can human alienation be overcome and people's true social nature be regained…

This description reveals that the *Pancasila* concept of human nature suggested by PES thinkers is actually very close to, if not identical with, the concept of human nature formulated in Marxism. People are social creatures who do not merely chase after material goods. They are not intrinsically greedy. But PES writers do not clearly explain why social creatures become greedy and materialistic. Evidently, they believe that this phenomenon is no more than an anomaly which can be corrected by dealing with people as individuals. By contrast, Marx indicates clearly that it is the capitalist social system which is responsible for this 'fall'. The therapy Marx prescribes is therefore also clear: the social system which causes it must be destroyed and an alternative social system more conducive to the true human nature must be developed.

If one of the main objectives of the PES is equity, then it is not only important to realise equitable distribution but to also create a social system that will preserve it… The efforts of the PES to redistribute wealth by 'consciousness-raising' faces many obstacles. Education and moral incentives may convince some people that they are obliged to act socially. However, they will continue to live in a capitalist society in which material wealth and high consumption is not only the measure of people's success, but also adds to their social prestige and status. The question is, how long can this small number of people maintain this *'Pancasila'* consciousness? There may only be one or two who are crazy enough to continue to live simply in the face of the multiple opportunities for self-enrichment with which they are presented.

A socialist system seems to provide a better guarantee for the preservation of equitable distribution. Ownership of capital goods would be abolished.[11] All working people would be paid according to their needs. And only when society is richer will additional income be paid, equally, to *everyone.* In such a society, people who become wealthy (which can only be done because they are corrupt) will stand out… In other words, people who become personally wealthy in a

[f] Dr Hidayat Nataatmadja, 'Karsa Membangun Ilmu Ekonomi Pancasila,' in Mubyarto and Boediono (eds) (1981), *Ekonomi Pancasila,* Yogyakarta: Fakultas Ekonomi Universitas Gadjah Mada: 43.

socialist society will definitely not gain in prestige and status, and will not symbolise success. Wealth in the midst of poverty is dysfunctional in a socialist system…

People who accuse the socialist system of being unrealistic are people who do not believe that a *Pancasila* person can be created. This is understandable, because people of our generation have lived all their lives within a capitalist system…

It is evident that in many countries, specifically the economically developed, that capitalism and political democracy coexist… Poor people receive government subsidies in the form of social benefits like old-age pensions, unemployment benefits and health subsidies…[But] in poor capitalist countries there is not enough money for such subsidies. The contrast between rich and poor is thus more stark. The situation is more explosive. Consequently, the only way to prevent social revolution is military repression. We see that in poor capitalist countries political life is always volatile. It is not true that capitalism inevitably brings about a democratic political system. Democratic politics only occurs in the rich capitalist countries…

Then how do we explain the fact that there is no democracy in socialist countries? Theoretically, it is more likely that a socialist system will become democratic because the polarisation between rich and poor has been resolved structurally. Undemocratic practices occur when the elite in a socialist system feels that it is disadvantaged and cannot advance. This is why, for socialist countries, the problem is the flight of their elites to the 'free world'…

This is our point of entry for creating a socialist system based on the *Pancasila*. Our historical circumstances differ from those of other countries, so we must create a system which takes these unique conditions into account. But as I have said elsewhere,[g] it is only possible to build a *Pancasila* Economic System which both emphasises and preserves equitable distribution within a socialist framework… It is only such a system which will be able to implement the ideals of social justice contained in the *Pancasila* philosophy.

Sritua Arief and Adi Sasono (1981)
INDONESIA: DEPENDENT AND BACKWARD

Excerpts from the concluding chapter of Arief and Sasono (1981) *Indonesia: Ketergantungan dan Keterbelakangan* (Indonesia: Dependency and Backwardness), Jakarta: LSP.

The dynamic of Indonesia's economic development has produced rapid growth for a small number of people, poverty for many, but dependency for all. The rapid growth enjoyed by this small group is a dependent form of development, and the poverty suffered by the many is the product of that dependence. Dependence has been accompanied by a process of unequal exchange,

transplanting a foreign system of production and its associated social relations while marginalising many people from the system of production in which they had existed, functioned and found their livelihood. This process of marginalisation was not followed by their reabsorption into the new system of production of modern industry, for this new system of production was not pro-worker.

This system of production is not pro-worker because it is capital-intensive in nature, the result of technological developments designed to replace labour. The substitution process intended to reduce the labour component in production was the outcome of the social system of the advanced countries, where there was no labour surplus in the agricultural sector, the sector where the process of [industrial] transformation commenced… It has been shown that this transformation was carried out at great social cost because of its complete reliance on market forces, or the 'invisible hand'…

In Indonesia the industrialisation process has clearly been fashioned on the Western model and not based on the social realities of Indonesia… In addition to being dependent on imports, this process opened up a new phase in Indonesia's 'enclave' sector, one in which this economic sector was essentially 'alienated' from the lives of the mass of the people… In fostering and extending these new enclaves through industrialisation, Indonesian economic processes became essentially a continuation of the process promoted by the Dutch administration through the Cultivation System and the mobilisation of private Dutch and other foreign capital in the primary commodity plantation and mining sectors, the two 'enclaves' of the Dutch colonial period…

This third phase in the formation of the enclave sector in Indonesia…is a continuation of the previous phases, but, unlike these phases, was initiated by Indonesians and not foreigners. Indonesian economic history to date can be said to have been the history of the growth of these enclaves and not that of a mass-based economy. And the economic strategies and policies formulated and implemented have been essentially strategies to strengthen these enclave sectors. A situation similar to that in the countries of Latin America has occurred…because the entire enclave sector is outward-oriented in terms of both input and demand, because economic growth has mainly been concentrated in these enclaves, and because of the need to develop the infrastructural requirements of these sectors using foreign financial resources, both foreign direct investment and loans…

Relations of dependence have also resulted in decisions to apply production technologies which do not favour labour in the traditional agricultural sector, where a growing surplus labour force has been waiting for decades; not waiting to be absorbed into the new system of production, but waiting to be marginalised. Other studies…have demonstrated a new phase in rural life,

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[g] Sebuah Kritik Terhadap 'Sistem Ekonomi Pancasila' Mubyarto, *Kompas,* 10 June 1981. See also *Kompas,* 20 June 1981.

namely the phase of mass impoverishment. In this phase, the economic surplus is continuously transferred from the peasant masses to those who have brought and implemented this anti-labour system of production… This process of exploitation is basically no different from that undertaken during the period of the Culture System, in the sense that surplus is transferred from the mass of peasantry to foreigners, with the help of domestic forces. The only difference is the fact that the Culture System involved coercion with brute force, whereas under the post-1966 administration the same process takes place in the name of modernisation.

The economic developments which caused this mass impoverishment are not due to the malfunctioning of the existing economic system, but are in fact its central feature and functioning dynamic… This study has made findings about the Indonesian economy which strengthen the central hypothesis of the theory of dependency and underdevelopment, namely that rapid dependent growth for a few people and the process of impoverishment for many is a result of financial and technological dependence. [This dependence] continually transfers the economic surplus from the masses to foreigners, via their collaborators in Indonesia.

Whether they are aware of it or not, these collaborators have formed alliances for the transfer of economic surplus from the masses… The bureaucrats and power-holders have gained many economic benefits because many economic transactions have to be carried out by the government. These economic benefits have taken the form of accumulated capital, encouraging them to undertake cooperation with merchant capitalists and the domestic industrial bourgeoisie to recycle this accumulated capital into investments. Thus has there emerged a class of bureaucratic-entrepreneurs and politico-entrepreneurs.

In forging such alliances, bureaucrats and power-holders, either openly or in secret, have selected partners who are usually *non-pribumi* entrepreneurs. What in Indonesia is known as *'percukongan'* has thus thrived[12]… After independence and during the period when *pribumis* held political power, non-pribumis regained the position and opportunities they had enjoyed during the Dutch colonial period. However, the *non-pribumi*…were also put in a dangerous position by the power-holders. Apart from the fact that they were a minority group, the position they held amidst a destitute population made them easy targets for the social unrest that occurred as a result of mass poverty. In this sense the *non-pribumi* groups were the victim of the social fabric created by the powerful…

This study has clearly described how the process of economic growth in Indonesia under the post-1966 administration has been one of dependent development, implying the necessity for an alternative strategy redirecting this process towards autonomous development… This alternative strategy is not anti-growth, but is anti-growth-based-on-wrong-priorities. This alternative strategy must give priority to increasing effective domestic demand and not effective foreign demand. This alternative strategy is not anti-foreign economic relations, but is opposed to foreign relations that enchain [us] in dependence…

The problem is, how to bring about social structural change…to lay the foundation for an alternative development process? Without such fundamental change, the desire for social equity and self-reliance as an alternative to 'dependent development for the sake of economic growth' would only manifest itself in pronouncements and sporadic measures which do not bring about real change. Existing economic and political forces would sabotage all efforts to alter the status-quo… Or they will make cosmetic, limited changes in the direction of social equity and self-reliance. In the future, the Indonesian economy would remain essentially an appendage to the expansion of international capital, [a process] fuelled by multinational corporations and controlled by the metropolitan centres.

Dawam Rahardjo (1981)
DEVELOPMENT AND THE STRUCTURE OF DOMINATION

From 'Struktur Dominasi dalam Proses Pembangunan', a paper for the seminar, 'People against Domination', Christian Conference of Asia, Kuala Lumpur, 23–28 February 1981. Reproduced in D.Rahardjo (1983) *Esai-esai Ekonomi Politik,* Jakarta: LP3ES.

The term 'economic domination' no longer means colonialism in the old sense, whereby one nation directly controls another. This structural domination is indirect, in the sense of asymmetrical ties between the metropolitan centres and their satellites, between the centres and peripheries at both global and national levels. Such a relationship is not a mutually beneficial form of interdependence, but is exploitative in nature. The hegemonic power expands and penetrates the economically backward region, while this backward region 'develops' by becoming dependent on the advanced centre, becoming relatively more backward. Its economy may even decline.

Such a relationship is called 'structural' because the elements of domination and dependence are woven together in a complex system, both within and between sectors. The poverty caused by this relationship is structural…[It] is not merely a result of domestic factors, such as lack of education or of calories, but is due to exploitation. The poverty of one group in society is related to the prosperity of the elite within that society, or the elite of other societies. Further, the prosperity of this small social group that is the elite is not only an economic phenomenon, but is also political and cultural These three factors, the political, economic and cultural, are interrelated to form a domination-dependency relationship in the social system…

It is clear that prior to independence the Indonesian economy was shaped into an extremely exploitative colonial economic system. The question is: by achieving political independence was Indonesia able to smash this colonial

economic structure? Of course, there were at least formal efforts to create a national economy by nationalising foreign companies. But even though foreign economic forces were uprooted from the Indonesian with these nationalisations, the structures of the colonial economic system remained and there was a continuation of the dualistic economic system, with a growing modern sector and a traditional sector still in a condition of subsistence…

When talking about political systems and developmental models, Indonesia is classified as a 'repressive developmentalist regime'. It has as its distinctive features a bureaucracy directed by a military-controlled government, economic development organised by technocrats, and restrictions on the freedom and activities of the institutions of a conventional democracy—although they are still tolerated. In such a situation, mass poverty and a distorted distribution of income exist alongside capitalistic economic growth and extravagant lifestyles. These characteristics place Indonesia amongst similar countries like South Korea, Taiwan, Iran under the Shah, Brazil and Chile in Latin America…

The plans, policies and regulations of the developing countries that accept loans and technical assistance are intended to develop a capitalism which is more advanced and more 'sophisticated'… In line with the pattern of 'development from above,' ideas which originated in the world's metropolitan centres, we find that development in Indonesia is directed from the centre in a top-down process, with centralised mechanisms of power and planning. This process is absolutely unavoidable, firstly because it is the central government which controls development funds… Moreover, the central government plans development on a national scale and must therefore itself handle these programs and projects. Consequently, most development activities in the country are projects of the central government, carried out by its departments and apparatus in the regions… The regional autonomy actually defined in law cannot develop because of these financial difficulties. And it is therefore inevitable that the decision-making process will be from the top to the bottom.

In addition to requiring very large funds, the pattern of development based on these modern theories requires a significant amount of skilled labour The government has used available funds to promote human resource development and create the expertise able to realise modern management concepts. This expertise has not only been developed for the government, but also for the business… But although large funds have been expended, the results have not been sufficient and up to now a shortage of skilled labour has been felt. Elitism has thus also been unavoidable. Several groups within this elite strata are known to have luxuries, such as the technocrats, senior military officers, senior bureaucrats, engineers and professional managers who support the techno-structure, university graduates, intellectuals, researchers as well as modern business leaders. It is these groups who possess the decisive influence and power in the development process. And it is because of this that the development process in Indonesia has taken place in a system of technocratism and professionalism…

What has actually been produced by development in Indonesia, apart from its high rate of growth of GNP? We can say that economic growth has certainly been rapid, but it has been unequal and distorted by the figures for the growth of the modern sector. Industry has certainly developed rapidly, but the large ones are owned by multinational corporations or certain ethnic groups that have had special rights and opportunities since the colonial period. Total food production has certainly increased, but its benefits are mostly enjoyed by rich farmers and the village elite. Most people in rural areas still live beneath the poverty line…

The way in which development has been carried out and its results have also had a great social impact on values and the structure of society. These developments have not been equitable, with abundance for some and scarcity for most, so many forms of elitism in political, economic and socio-cultural life have emerged. Everywhere there are 'enclave' lifestyles. In Jakarta, for example, luxurious housing complexes have been built in areas that used to be kampongs for the poor. They have been moved out with the government's assistance, but those who have benefited are real estate companies. Patriotism, morality and religious values have eroded sharply because of the growth of materialistic attitudes. There is growing demoralisation amongst government officials, social leaders and even intellectuals and artists. Traditional cultural forms and values have been wiped out, replaced by new commercial cultural forms. For instance, beautiful traditional children's toys have been pushed aside by toys produced by foreign companies. Children no longer play with their friends in the front yard but play in their own houses, or watch television. Family and married life has begun to resemble that described in the film, 'Kramer versus Kramer'.

How does Indonesia's elite today perceive the events happening around them, and what is their attitude?… Some are clearly not very aware of what is happening. They do not know that poverty is not just caused by inertia but is the result of a social structure which does not allow the poorer classes to improve their lot. They are not aware that the international capitalist system dominates Indonesia's economy and extracts wealth from peripheral regions to be sent to the metropolitan centres. They do not know that international capitalist operations have destroyed and threatened our natural resources. Nor are they very aware that this sort of development has effected traditional values and threatened traditional cultures.

Nevertheless, there are some members of Indonesia's elite—certain intellectuals, artists, technocrats, bureaucrats and students, as well as business groups—who truly understand what has happened. This is obvious from the many seminars and discussions held in Indonesia… The situation has not yet become hopeless, for optimism is becoming stronger. The problem is, these new hopes frequently come up against structural realities…

The Indonesian elite today is really caught up in the lifestyle they have created themselves, a result of their contact with the West. Their creativity often emerges and is stimulated within the framework of capitalism. Artistic activities, for example, are now dependent on charity provided by the government or business.

For example, artists rely for their livelihood on advertising which is propaganda for goods produced by MNCs; scholars carry out research for the government or investors; experts and technicians can only survive because they are paid by the modern sector which appreciates and makes use of their expertise and skills…

In the meantime, structural realities have become intermeshed with power. Or power has become part of the economic system. Power has become a tradeable good. Those who can buy it are the ones with power. Every idea for reform will confront power. At the same time, some of the elite are no longer sensitive about the use of power, because that power also protects their interests. Moral resistance has therefore been subordinated by the changed life-style and attitudes of those involved.

Every reformist idea at the level of the national leadership must also confront power in the form of the international capitalist system, which is often hidden but always felt. Repressive political regimes can get the support of developed states provided they protect the interests of the capitalist world… In Indonesia, as with other countries, alternative development ideas are therefore always confronted with the power of the international capitalist system. It is often difficult to find evidence of the structure of domination and economic domination on the basis of scientific methodology. Yet that domination will be keenly felt if we try to do something directly to improve the situation. Whenever we hold discussions about alternative patterns and discover just how difficult it is to design a feasible and realistic concept, then we feel the presence of that dominant structure.

NOTES

1 In New Order official rhetoric, the 'Old Order' of Sukarno was charged with having betrayed these ideals by veering too far to the left in the 1960s and allowing communist influence to rise.
2 For example, the fifth of the 'Five Principles' of *Pancasila* is 'Social Justice for All of the People of Indonesia', and the oft-quoted Article 33 of the Constitution states that the nation's natural resources should be controlled by the state and utilised for the greater good of the people.
3 The term 'repressive-developmentalist' regime was introduced by the Australian political scientist, Herbert Feith (1980a).
4 This manifesto *(pernyataan sikap)* followed discussions amongst ITB students and was written collectively by a team selected by the ITB Student Council.
5 The greeting, *merdeka!,* 'freedom!', hails from the independence struggle prior to 1950. It was widely used as a rallying cry amongst Republicans, and its usage here indicates the student's appeal to nationalist sentiment.
6 The 'control function' *(fungsi kontrol)* in Indonesia refers to social checks on state power.
7 *'Cukong'* derives from the Hokkien for 'master', and is a generally derogatory term for an ethnic Chinese capitalist. Its approximate connotation is 'milch-cow'.

8 'Water hyacinth', a weed with edible flowers that commonly lines waterways in Indonesia.
9 Business districts in north-west Jakarta dominated by ethnic Chinese.
10 Here, Budiman quotes the renowned sociologist, Selo Soemardjan, who defines 'structural poverty' *(kemiskinan struktural)* thus: 'The poverty meant here is not the poverty of someone who is too lazy to work or is always ill. Such poverty is personal, not structural in nature. Structural poverty is what a social group suffers if social structures cannot utilise the sources of income that are actually available to that group' (Soemardjan 1980:5).
11 This statement is not as radical as may be thought. Article 33 of the 1945 Constitution states the same idea.
12 This is a system of *'cukongism',* namely the protection of (usually Chinese) big capitalists by state officials, in return for material favours. See note 7.

Part III

Current controversies

Liberalism, social justice and the role of the state

6
Economic liberalism
A new orthodoxy

INTRODUCTION

The fall of international oil prices in the early and mid-1980s had profound consequences on the direction of Indonesian economic policy.[1] Essentially, it heralded a difficult period of readjustment which involved pressures to significantly liberalise the economy and redefine the role of the state. In terms of economic thinking, what emerged was a fundamental challenge to the statist-nationalist position which predominated since the first oil 'boom' of 1974. This challenge, significantly, embodied many of the concerns of the World Bank critique of Indonesian economic policy discussed in Chapter 4.

That the state was now bereft of its most important revenue base meant that the strategy of import substitution to promote industries such as steel, petrochemicals, cement, automobiles and paper was no longer sustainable, given that it was largely developed in the 1970s on the basis of state protection in the form of monopolies, subsidies and credit (Robison and Hadiz 1993:19). In its place, an export-led strategy gained new importance, emphasising low wage and technology industries such as textiles, garments and footwear. Given the constraints on state expenditures, state policy was also now directed toward fostering a climate which was more conducive to raising the levels of private domestic and foreign investment. It was against this background that terms such as 'deregulation', 'liberalisation', 'comparative advantage' and 'international competitiveness' came to pervade the discourse on economic development in the mid-1980s and early 1990s. This would have been almost inconceivable less than a decade earlier, when economic debates were dominated by a more inward-looking, state-centred development orientation basically hostile to free market ideas.

The fall of international oil prices allowed proponents of free markets greater influence over state policy. Among such proponents were the economic technocrats who had masterminded Indonesia's reintegration into the world economy in the late 1960s—but were more or less pushed to the side during the oil boom period by statistnationalists. Now openly favouring free market

policies, this group came to regain much of the upper hand in policy debates. Importantly, they were supported by sections of the liberal intelligentsia—including professional economists and public commentators—who became influential in forming public opinion due to their high profile in the national media. Not surprisingly, they were also supported by international organisations such as the World Bank, the International Monetary Fund (IMF), and the Inter-Government Group on Indonesia (IGGI), a consortium of Indonesia's creditors,[2] upon which Indonesia became much more dependent following the fall of international oil-prices. Indeed, the policies that the economic technocrats were advancing conformed with what had by that time become the orthodoxy of the major international development institutions.

From the mid-1980s the Indonesian government produced a steady stream of deregulation policies (Robison and Hadiz 1993:20–23; Azis 1993). The benchmark years were 1986 and 1988, both years when important deregulation packages were introduced. However, these initially affected the financial and trade sectors only, leaving the industrial sector virtually untouched until very recently This was not surprising, for the liberalisation of this sector was continually resisted by entrenched interests that had benefited greatly from the policies of state protection which characterised the period of import substitution. One good example of this is provided by failed attempts to overhaul the highly inefficient automotive industry, perhaps one of the most important symbols of the mainly 1970s vision of a largely self-reliant and industrial Indonesia.[3]

This chapter contains contributions by some of the most prominent of the economic technocrats and liberal intelligentsia, including academics and commentators, in favour of continuing the liberalisation of Indonesia's economy. Taken together, the four excerpts presented here provide a clear outline of the themes and arguments advanced by the proponents of economic liberalisation. This group will no doubt continue to exercise influence on future economic policy-making in Indonesia, given the current implausibility of arguments for insulating Indonesia from the dynamics of the international economy.

The first contribution is by **Ali Wardhana,** a highly respected figure who held the important cabinet position of Coordinating Minister for Economics, Finance and Industry from 1983 to 1988. He was also an important member of the group of economic technocrats that initially presided over economic affairs in the late 1960s. Written in 1990, after he had officially retired from government, the piece spells out in a succinct manner the liberal critique of economic policy during the oil 'boom' period as well as the prescriptions for future economic development advanced by those in the liberal camp. Wardhana suggests, perhaps somewhat tongue-in-cheek, that 'hard times bring good policies' in Indonesia, referring to the push to liberalise the economy following the crisis brought about by the fall of international oil prices. What many have considered to be a misfortune is thus basically presented as a blessing in disguise, for its consequences dictated that economic inefficiencies could no longer be tolerated. Pointing out that the New Order government always had a three-pronged approach to development—

emphasising growth, equity and stability—Wardhana suggests that it was clear in the mid-1980s that stability, in particular, economic stability, had to be given special attention. It was with this in mind, according to Wardhana, that a series of measures were undertaken to promote budgetary austerity, tax reform, and raise non-oil exports.

The second contribution is by **Radius Prawiro,** another highly respected technocrat who succeeded Wardhana as Coordinating Minister of Economics, Finance and Industry in 1988. Like Wardhana, he was also a core member of the economic technocrats that first became influential in the late 1960s. Referring to the unpopularity of liberalism in Indonesia in the past, Prawiro suggests that the current liberalisation drive is a completely new experience for Indonesia. He points out that 'market economics is a relatively new concept' Indonesia, and in that sense the country 'does not really have a market economy to "go back" to'. According to Prawiro, although Indonesia's economic path has been determined by rational policy-making for over twenty years, it is only recently that the country has 'awakened to the potential of unleashing the powers of the market to hasten…economic growth'. Demonstrating the new confidence of liberals, Prawiro suggests that the fundamental social and economic goals of the nation—presumably determined during the independence struggle—would actually be served by introducing greater competition into the economy. What better way, he asks, to ensure both economic growth and more equal distribution of wealth than through competition, which would countervail the monopolistic tendencies that have contributed so much to social disparities? Again demonstrating the new-found confidence of liberals, Prawiro argues for the validity of fundamentally liberal axioms that emerge from the works of such philosophers as Smith and Hume, who were clearly unpopular with the generation of Sukarno, Hatta and Sjahrir, the generation of the nation's 'founding fathers'.

The next contribution is by the economist, **Sjahrir,**[4] one of the most outspoken supporters of economic liberalisation. A student activist in the 1960s and 1970s, he is now a well-known public figure who has contributed numerous essays and columns in the national press, where his statements often make front page headlines. In this excerpt, taken from a 1990 essay, Sjahrir confronts squarely what he perceives to be the obstacles to promoting the liberalisation process in Indonesia. Establishing the existence of forces for and against deregulation, and expounding on the vested interests of the latter, he argues that they have benefited from the legacy of an anti-liberal kind of egalitarianism which is the legacy of Indonesia's anti-colonial struggle. Moreover, he suggests that the interests of anti-deregulationists and of bureaucratic powerholders are inter-related, implying that further deregulation is not simply a matter of choosing the right policies, but involves a complex political struggle as well. This piece stands out as a distinctive contribution to the debates of the mid-1980s and early 1990s, if only for its blunt critique of the historical legacy of the independence struggle.

The last contribution is by another high-profile economist, **Mari Pangestu,** daughter of Panglaykim, the economist who was most responsible for outlining

the basic philosophy of the CSIS group that was so influential in the 1970s in encouraging deep state intervention in the economy. Pangestu, however, is an unreserved liberal, and well-known for supporting the dissolution of inefficient state-protected monopolies. In this piece, published in the then popular and influential weekly magazine *Tempo,* Pangestu criticises what she sees to have been the only half-hearted endeavours to eradicate the causes of Indonesia's high-cost economy. In addition to her harsh assessment of the failure of deregulation policy to deal with the automotive industry, the excerpt also contains one of the most unambiguous arguments that one is likely to find in Indonesia for removing virtually all regulations that hamper the operations of foreign multinationals. Further demonstrating the change of mood since the mid-1980s, Pangestu is also unflinching in her support for a much less pervasive state. Apart from addressing obvious social discrepancies, she suggests that it should only concern itself with being 'a friendly facilitator to the private sector', and act as the 'enforcer of laws'.

All of the above contributions were written at a time when economic liberalism appeared to be ascendant. Yet economic policy-making is so highly politicised that, in spite of the more favourable milieu, economic liberals have not been able to vanquish those opposed to their agenda, namely statist-nationalists and contemporary populists. As we shall see in the following chapters, it is particularly the politically sensitive social justice issue which has presented economic liberals with their toughest challenge, largely because of the pervasive belief that the untrammelled workings of the market and the pursuit of equity are irreconcilable goals.

Vedi R.Hadiz

Ali Wardhana (1990)
THE TRANSITION TO INTERNATIONAL COMPETITIVENESS

> From 'Economic Reform in Indonesia: The Transition from Resource Dependence to International Competitiveness, 1984 to 1990', a paper presented to the conference 'The Economic Policy-making Process in Indonesia', Bali, 6–9 September 1990. Original in English; presented here with slight emendations.

By 1982 it had become evident to many of us that the real value of oil exports was likely to level off, if not decline. Recognising the need to find alternative sources of government revenue, we began to work on a major overhaul of the tax system, which was implemented in 1984… We began our financial reforms as early as 1983. In that year, all credit ceilings were abolished and banks were permitted to set their own interest rates on most loans and deposits.

The response to the collapse of 1985–1986

Without the economic reforms that occurred before 1985, adjustment to the collapse of 1985–1986 would have been traumatic. But we should not underestimate the gigantic problem that confronted Indonesia in the mid-1980s. After 1985, the fall in petroleum prices drained at least 8 per cent a year from our gross domestic product, and has continued to do so. One-third of the dollar value of exports was wiped out, while government revenues fell by 14 per cent in real terms in one year alone… With 60 per cent of our external debt in non-dollar currencies, especially yen, the dollar value of our debt rose sharply, while the fall in oil prices reduced the resources available to service this debt. We estimate that the weakened dollar alone added around $1.6 billion, or nearly 40 per cent, to our annual debt service obligations after 1985.

In one sense, the severity of the crisis was an advantage. We often say in Indonesia that hard times bring good policies. The decline in oil prices was a signal, clear to all, that Indonesia needed drastic measures, first to stabilise the economy and prevent a downward spiral of incomes; and then to find new sources of income growth. So when the budget was cut and reforms were begun, we enjoyed a broader measure of public support than governments did in many other countries under similar circumstances.

Indonesia's long-standing approach to development provided a set of widely accepted guidelines for stabilisation and reform. The New Order government bases national development on a tripod of goals: growth, equity and stability. In 1986 it was clear that the third leg of this tripod, stability, especially economic stability, had to be given immediate priority…

Stabilisation began with the government budget. Self-imposed balanced budgets made it mandatory to cut government expenditures to fit shrinking oil revenues… Even with budgetary austerity, we were forced to borrow more… We struggled to keep debt service within our capacity to repay. Between 1984 and 1988 new borrowing increased the government's foreign debt by 75 per cent… Outstanding debts more than doubled, [and] in 1988 debt service payments rose to more than 50 per cent of the government's routine budget and the debt service ratio rose to 38 per cent of earnings… Civil service salaries were frozen for four years and development expenditures were cut from 11 per cent of GDP in 1985/86 to 6 per cent in 1988/89…

By 1989 the stabilisation program had achieved its aims. That year, inflation fell below 6 per cent, government revenues increased to 23 per cent of GDP, and the threat of recession was avoided. Moreover, the economy is [now] booming. More than anything else, this dramatic turnaround is a story of deregulation of the Indonesian economy

Deregulation of trade

Although macroeconomic management had generally been sound throughout the oil boom, oil wealth had allowed us to fall into some bad microeconomic habits… These inefficiencies could be tolerated as long as oil revenues provided the resources for investment and growth. But with the collapse of oil prices, we faced another obvious crisis: somehow we had to switch gears and stimulate non-oil exports, the very sectors that were mired in the bureaucratic bog. For the first time in over a decade, we were forced to consider microeconomic reform as our highest priority.

Trade reform got our attention first… In 1985 the government decreed that the customs authority could no longer handle most imports. Instead, a foreign firm was hired to inspect and assess tariffs on all import orders for more than $5,000.

However, the banner year for reform was 1986… Two reforms in particular set non-oil exports on a growth path that has been maintained ever since. In May 1986 we established a duty drawback facility, called P4BM, that enabled export industries to import their inputs duty-free; and to import directly, regardless of the licensing restrictions that applied…[And] in September 1986 we…devalued the rupiah by 45 per cent… We began to manage the exchange rate more flexibly, so that since 1986 the real value of the rupiah, and hence the real incentive to exporters, has been maintained at the post-devaluation level.

These two reforms enhanced the incentives for manufacture exports and gave confidence in sustained profitable operations to firms that invested for export. The result has been that exports of manufactures have grown by almost 40 per cent a year since 1986, almost matching oil and gas exports in importance by 1989…

The same year, 1986, also saw the first of several deregulation packages that have gradually dismantled the non-tariff barriers that created the 'high-cost economy'… Each of the packages concentrated…on two or three industries in the attempt to have a discernible impact on costs and efficiency. Textiles, agricultural processing, pharmaceuticals, plastics, chemicals, steel, machinery and equipment have each been partially or substantially deregulated… Whereas two-thirds of manufacturing production was protected by non-tariff barriers in 1986, only two-fifths receives such protection today.

Future deregulation packages will continue to dismantle unnecessary protection, and reduce tariff protection to levels more consistent with the internationally competitive economy that Indonesia is becoming.

Financial reforms

Our newly competitive industries require both short-term credit and long-term capital to finance the investment opportunities that have been opened up by the trade reforms. Although credit reforms began in 1983, it was not until 1988 that

government turned its attention fully to the problem of restructuring financial markets in Indonesia.

In October 1988 we instituted a set of reforms designed to enhance competition within the financial sector by removing some of the barriers to entry that remained in place following 1983… The results of banking deregulation have been impressive. As a measure of the banking system's growth, commercial banks' total assets have risen as a share of GDP from 26 per cent in 1983, when we began the banking reforms, to 53 per cent at the end of last year…

With these money market reforms we are attempting to take a quantum leap forward. Remember that these market-freeing measures have been taken against a background of a fully convertible currency, with no restrictions on the flow of capital between Indonesian and overseas money markets. Having forgone the use of direct controls, Bank Indonesia must now use market instruments to maintain price and exchange rate stability…

Financial and money market reforms should intensify competition in financial markets, encourage new channels for financial intermediation, and reduce the cost of intermediation. Financial market reforms will support trade reforms by increasing savings channelling funds towards the newly profitable export industries and other productive sectors.

Investment regulations

The third area of deregulation…has been of investment restrictions. Until 1989 we imposed complex restrictions on investment, which could only be made in industries listed by decree as open to new investment… In May 1989 we relaxed these restrictions substantially… Investment deregulation gives us another avenue to a more competitive, productive economy. We have made great progress in opening our manufacturing sector to foreign competition,

Reform and development

The success of Indonesia's trade, finance and investment reforms should be judged against the government's tripod of goals on which to base economic development: growth, equality and stability… There has been some criticism that deregulation and growth have come at the expense of equity, favouring the large, wealthy firms over the mass of low-income people. While it is true that many of the large firms have prospered in the past few years, all the evidence suggests that the poor are benefiting as well… In 1976 40 per cent of the population was estimated to live in poverty, defined as having incomes that are insufficient to purchase 2,100 calories per day of food plus other necessities. By 1987 the number with incomes below the poverty line fell below 17 per cent, and there is every indication that the share may still be falling. Moreover, the reduction of poverty is taking place as rapidly in the rural areas as in the cities,

It is crucial to understand that this is not 'trickle down' growth at work. In the Indonesia of the 1990s, if economic growth is to take place at all, it must incorporate some of the poorest groups in the economy… Our export drive is based on the growth of firms that create jobs for low-skilled workers who migrate into industrial employment from…agriculture. Some of the largest industries in the economy, including construction, transportation, retail trade and other services, employ large numbers of low-income workers, especially in the informal sector. These service industries are quick to respond to rapid growth in other sectors of the economy…

Insofar as deregulation has helped propel rapid growth, it has contributed also to the reduction of poverty. And the more thoroughly deregulation takes place, the more open the economy becomes to participation by all groups in rapid growth. Protection and regulation not only slow economic growth, [but] exclude many people from the benefits of that growth. A more deregulated economy is capable of opening new opportunities to people who had been excluded previously…

In economic terms, we achieved stability as our first priority after the oil price collapse. Without it, the export, investment and growth spurts of the late 1980s would not have materialised. Furthermore, the economic reform program that began in 1986 has been a model of gradualism, moving step-by-step towards a more open and competitive economy. As this progressive reform takes hold, it picks up adherents among those who have already benefited from deregulation, so that future reforms are received more warmly. This support becomes more crucial as the more resistant pockets of regulation are put on the agenda for the next reform packages.

Radius Prawiro (1989)

BACK TO THE WISDOM OF THE MARKET ECONOMY

From an address to the tenth Graduation Ceremony of the Indonesian Institute for Management Development (IPMI), Jakarta, 15 December 1989. Original in English, excerpts reproduced here with slight emendations.

Strictly speaking, in the context of Indonesian economic history, a market economy…has yet to be fully developed in this country. For years, Indonesia has followed what is generally referred to as an 'interventionist' approach to economic management. For us, market economics is a relatively new concept, and in that sense Indonesia does not really have a market economy to 'go back' to.

By framing the topic in this way, however, we are provided with the valuable opportunity to look beyond Indonesia's own borders and to draw from the broader lessons of history at the global level… With these developments in

mind, it is fair and accurate to observe that the major global economic trend of the 1990s is likely to be a reorientation once again in favour of market forces as the most effective motor for advancing national and international economic progress and growth… Indonesia has enjoyed 20 years of rational and systematic economic development since the start of our *Repelita* system of economic stabilisation in 1969. Yet it has really only been in the past five to six years that we have awakened to the potential of unleashing the powers of the market to hasten our economic growth…

Here in Indonesia the subject of monopolies and conglomerates, as we all know, is very much the 'talk of the town' at the present time. The question on everyone's lips is, are monopolies a force for good, or are they a negative influence? It is true that we in Indonesia—including the country's economic policy-makers—are faced today with a growing debate on this subject. Our nation was founded on a number of fundamental economic and social goals. Among these, two of the most basic are the assurance of adequate employment for our people and the equitable distribution of wealth throughout our population. With these basic principles in mind, we have to ask ourselves whether large business groups can make a valid contribution toward equitable economic growth, or whether they stand in the way of achieving these goals. We also have to ask ourselves whether small-scale and medium-scale businesses, which also form a vital and desirable part of our economic system, can thrive and grow-up alongside, and in partnership with, large diversified business groups…

In the case of our private sector…we believe monopolistic practices are *not* appropriate to achieving our goals of balanced economic growth. To avoid this, our approach, especially during the new era of reform and deregulation of the 1980s, has been to open the door to greater competition, including foreign investment, and to let the market place regulate itself. These steps have by no means caused a weakening of the larger business groups. Indeed, in this new environment many of our so-called 'conglomerates' are thriving even more vigorously. What is essential is that we have injected a major new element previously lacking in the equation. And that is *competition*.

During the past two years, in particular, we have experienced a surge of new investment in Indonesia. Some of this has been from foreign sources. But even more important, much of it has come from small-scale and medium-sized domestic investors, As a result, we believe our conglomerates are getting plenty of competition, and that they are having to work hard to keep their customers satisfied…

It is a fundamental goal of our country's long-term economic and social policy to bring about a more broadly-diversified participation in the ownership of Indonesia's resources and productive enterprises than is presently the case. We recognise this will be influenced by a range of factors affecting economic development in the broadest sense—including access to capital, mobilisation of savings and greater distribution of wealth. As a key contributor to this process, we are optimistic about our newly revitalised stock markets in Jakarta and Surabaya.

These, we believe, will help provide a vehicle for broader public participation and ownership in the nation's productive enterprises. Over time, as our stock markets become more sophisticated, we will almost certainly be developing more aggressive regulatory measures to deal with issues such as corporate mergers and acquisitions, and other forms by which the big become bigger.

Starting in the mid-18th century Europe entered a period of tremendous intellectual upheaval, not least in the newly-discovered science of economics. This burst of creativity was led by the great intellectuals of the day, most of them English, notably Adam Smith, David Hume, Thomas Locke, Thomas Malthus and David Ricardo. Together, these thinkers shared a common rejection of the growing constraints of mercantilism. But they also enjoyed the fresh breezes which liberated the era, including religious tolerance, increased political flexibility, greater respect for individual expression, and the rise of 'natural science' as a driving force for new discoveries.

To these thinkers we owe many basic economic concepts which we take for granted today Many of these ideas…were considered radical at the time, including free trade, elimination of protectionism, currency convertibility, and production based on 'comparative advantage'… The process of comparative advantage, of course, is still evolving to this day. Now, however, it is countries such as Indonesia and our Southeast Asian neighbours which are enjoying the benefits…

Left unchecked, an economic system based purely on 'survival of the fittest' is incapable of providing fair, balanced and equitable benefits to all citizens. Here in Indonesia we regard this as a fundamental component of our approach to national economic management… I do want to emphasise, however, that a number of the basic economic concepts of *laissez-faire* continue to have underlying validity today, even in the altered circumstances of the modern world. The key to making them work is to ensure that they are properly *balanced*. Reduced to their simplest form, the concepts which we continue to support today can be summarised in six basic axioms:

1 The principle of private ownership;
2 The promotion of individual enterprise;
3 The minimisation of non-market forces;
4 The reduction of state intervention in market activities;
5 The elimination of trade barriers between nations;
6 The commitment to international currency stability.

In effect, the same painstaking process of economic and institutional growth that evolved in Europe and other industrialised nations over a period of 500 years is today working itself out here in Indonesia—but in a compressed time frame one-tenth as long. Set in this context, it is not unreasonable to assess the first twenty years of Indonesian history after independence as a period that was *not* best suited to rational economic planning. Rather, it was a stage we needed to go

through in order to create and define the underlying social contract binding our many diverse peoples into a single unified nation… However, just as we have seen from the European experience, man cannot live by politics alone. Our early preoccupation with political and social structure—and, if I may say so, our early tendency towards extremism, both in politics and economics—inevitably caused us to neglect the build-up and nurturing of a sound and prudent *economic* structure.

Eventually, however, we had our final political 'catharsis', with the firm rejection of communism in the mid- 1960s. With this finally out of the way Indonesia was at last ready, two decades after independence, to get down to the serious business of putting our economic house in order. How did we begin? Just as the Europeans did when they started, by mercantilism. How else? Economic nationalism, protectionism, high tariffs, strong government intervention in the running of the economy. Indeed, we utilised the whole arsenal of centralised management mechanisms. We followed the classic pattern of a newly-emerging economy attempting to get on its feet… Given the chaotic state of our economic affairs in the mid-1960s it was absolutely essential that the government move with a strong hand to impose order and discipline, and to develop strong mechanisms for the organised management of production, distribution, infrastructural upgrading, trade and monetary control.

In spite of our emphasis on centralism and statism in those early years, we were also sowing seeds…from which we would later reap the benefits… As evidence of this, I would point to two key indicators. One of these was the first significant economic measure enacted under the New Order government of President Soeharto: the passage of the Foreign Investment Act in 1967. To this day, this legislation ranks amongst some of the most enlightened investment policies found in developing countries anywhere… The Act established a rational system for the inflow of private foreign capital to aid in our development process and provided the legal guarantees and economic incentives necessary for the security and survival of foreign investors. As a second important indicator of our inherent support of market-oriented principles, I would point to our early policies in the area of monetary management. Very early on, Indonesia made history as a developing country by establishing a system of free convertibility of our rupiah currency. For a developing country, this was a move of almost revolutionary daring…

Indonesia's program of firm economic management was just getting underway when, as we all know, the country entered a decade of sudden and unexpected prosperity with the sharp rise in world oil prices, beginning in 1973. Looking back, it is impossible to judge where we would be today without enjoying this windfall of foreign exchange earnings… There is no question that the prudent recycling of petrodollars into our economy enabled us to achieve economic expansion through industrial and infrastructural growth, at levels that would otherwise have been unattainable.

In hindsight, however, it is also arguable that our…riches made us spoiled. We felt cushioned from the visible need to diversify our export economy, particularly in manufactured and other industrial products, as many of our neighbouring countries had already begun to do. In this way, oil and gas had an almost 'opiating' effect on our national vision of economic development throughout the 1970s and into the early 1980s. Specifically, we were drawn into a sustained period of inward-looking economic development, and placed an over-emphasis on strategies of import-substitution. To make these strategies work, we engaged in extensive intervention in the allocation of capital, pricing and other aspects of production. Over time, this generated inefficiencies and added costs to our productive process, in turn prompting further government intervention. This was in danger of becoming a 'vicious circle' of market distortions…

In retrospect, we can now assess the sudden drop in oil prices, first in 1982 and later in 1986, as only a temporary 'disaster' for the Indonesian economy. Most important, the oil shock served as a vital trigger for new policies. For the first time in years we were forced to take a hard look at our whole economic system. We had to face the reality that by the mid-1980s our economic apparatus was in danger of becoming paralysed through rigidities, inefficiencies and a range of non-market forces which had crept into our economic system. We were forced to realise—and quickly too—that many of these negative forces, if left unchecked, could soon start to drag the country backwards. This, of course, marked the dawn of Indonesia's new age of deregulation…beginning with the reform of our tax laws in 1983…

Underlying everything we have done is a firm belief that there *is* room for a market economy in Indonesia—not a high-cost economy, but a market economy. Indeed, through it, we believe, lies our best hope for the future. Admittedly, part of this has been forced on us by necessity. Lacking our previous revenue base, the government has had to recognise that we can no longer assume the mantle of economic stimulus that we were used to providing in the past. But we must stress also that our change in approach also has a fundamental philosophical and practical basis for support We have looked at the economic performance of our neighbours and we have studied the lessons of history. We have opted for the new market-oriented approach because we believe it is more realistic and pragmatic and, most important, because it will bring us the results we require more quickly and more effectively. And, like so many other countries in the world… we have indeed come full circle. We have abandoned our own earlier version of mercantilism and instead discovered the 'wisdom of the market economy'. Entering the 1990s, we are genuinely convinced that a market-oriented approach will provide the most practical and speedy means of achieving our overall national economic goals.

To that, however, let me just add an important final word of explanation. A market economy, as we interpret it, does *not* mean an economy without rules. It does *not* mean an economy of unrestrained competition, where the big get bigger and the small are swallowed up. It does *not* mean an economy in which

government has no role to play. Far from it. For us, a market economy is one in which all our productive enterprises, both large and small, both private and state-owned, both corporate and cooperative, are encouraged to prosper in an environment of fair and balanced competition. There should be no abuses; there should be no imbalances. The weak should flourish, together with the strong.

Sjahrir (1990)
THE STRUGGLE FOR DEREGULATION IN INDONESIA

From 'The Indonesian Deregulation Policy Process: Problems, Constraints and Prospects', in John Langford and K.Lorne Brownsey (eds) *Economic Policy Making in the Asia Pacific Region,* Nova Scotia: Institute for Research on Public Policy.

The Indonesian economy before the oil price drop was an economy in which the government was omnipotent and omnipresent. The processes of allocation, accumulation and distribution…were nearly all conducted by the government. State-owned enterprises were much stronger than private enterprises in nearly every sector…

The idea of the centrality of the government in the national economy has firm roots in Indonesia's Constitution and there is still strong agreement that the state's role in the economy should be predominant. In banking, for instance, the Indonesian Central Bank is strong not only because of its influence on policy, but also because state banks provide around 70 per cent of the nation's total credit.[a] In sectors such as agriculture, or more precisely rice production, the government's role is no less important than the government in a socialist economy.[b]

The same government influence can also be seen in the growth and development of manufacturing industries. Import substitution industries… developed with a high degree of protection, including import bans or quantitative restrictions, provision of subsidies and credit, and government procurement of durable consumer goods as well as capital and intermediate goods.[c] One could go on to still other sectors, such as trade and services, but a similar picture arises. Government economic institutions in banking, trade, insurance and re-insurance, in terms of number of activities, and in value (assets), are much larger than private institutions.

From this description of the supply-side of the economy…and an appreciation of the government's great power (in large part a result of oil money and foreign aid) on the demand side, it is no wonder that there is very little incentive for private initiative. The government budget increased from 12 per cent of GDP in

[a] Anwar Nasution (1983) *Financial Institutions and Policies in Indonesia,* Singapore: Institute of Southeast Asian Studies: 1–25.

1968 to more than 26 per cent in 1981/82.[d] This growth was largely due to the increased share of so-called 'development expenditure' compared to 'routine expenditure'.

The oil price drop changed all that and, very soon, routine expenditure…was larger than…development expenditure…the same time, the foreign debt expenditure post became the largest (53 per cent) post in the routine expenditure side of the budget.[e]

The fragile economic situation resulting from the oil price drop was shown very explicitly in the foreign balance of payments and budget. There existed the need for increased non-oil and gas exports to compensate for the decline in foreign exchange that accompanied the oil price drop. There also existed the need for higher government earnings from non-oil and gas taxes to substitute for earnings from tax on oil and gas. In both cases, policies aimed to fulfil these two big needs involved supply and demand changes in the economy and, because in both cases the government had to rely on the private sector, the only price measure available was deregulation…

Problems of deregulation

It is important to make a distinction between economic forces that benefit from regulation and forces that are left behind because of it. The latter will be called deregulation forces. But who are the regulation forces? And why are they for regulation? The regulation forces consist of bureaucrats who benefit from having the power to give licences; part of the private sector protected by regulation, that is, economic forces protected from competition by import bans; and persons in power, who because of regulation, have access to goods and services that may be distributed to other persons or political factions that aid their political survival. These groups are for regulation because the regulatory market or captive markets put them in a position of economic strength that may be used for their own accumulation of capital and allows them to allocate and distribute resources according to their will, often solely to enhance their economic and political strength.

This is not a case of Indonesian uniqueness, and in fact happens not only in other developing countries, but in developed countries. But what does possibly make the Indonesian case unique is the tremendous strength of the regulation

[b] C.Peter Timmer, Walter P.Falcon and Scott R.Pearson (1983) *Food Policy Analysis,* Johns Hopkins University Press: Chapters 5 and 6. C.Peter Timmer (1986) *Getting Prices Right—The Scope and Limits of Agricultural Price Policy,* Ithaca: Cornell University Press.

[c] Hal Hill (1988) *Foreign Investment and Industrialisation in Indonesia,* New York: Oxford University Press.

[d] See various *Pidato Pertanggungjawaban Presiden di Depan DPR,* January 1980–1982/83, Departemen Penerangan RI.

forces which derive from the 'omnipresence' and 'omnipotence' of the state. It is very difficult to make a sharp distinction between persons in power and the government itself…

It is beyond doubt that oil money, economic regulation and the political astuteness of President Soeharto have played an important role in contributing to political stability in Indonesia. Oil money and government intervention helped to achieve economic growth and the provision of basic human needs in Indonesia (Sjahrir 1986)… Not only was the budget increased as a percentage of GDP, but state bank credit accounted for 70 per cent of total credits, most of which went to state-owned enterprises. The interconnectedness between state political and state economic institutions, the difficulty in making a distinction between persons in government and the government itself, combined with the absence of an opposition and the very minuscule size and influence of the middle class, all pointed [in] the direction of increased state power, which, for the most part, is synonymous with regulation forces.

But another important political and economic development in Indonesia is the rise of capitalist forces (Robison 1986) and the process of industrialisation that went along with it. [This process] succeeded, with the help of oil money channelled through the budget and credit, in creating an import substitution type of manufacturing sector. Later on, industries such as textiles were geared for export, but comprehensively changing the nature of industry to a more competitive position has been difficult because this must start with an attempt to reduce protectionism and challenge the regulation forces.

Constraints on further deregulation

The Indonesian Founding Fathers were preoccupied first and foremost with social and economic justice. Not only is this reflected in the Constitution, especially Article 33, but it has also imbued the thinking of the political elite in Indonesia from the early 20th century to the present time. There is virtually no political or economic literature that could be categorised as being in favour of capitalism—or even competition, for that matter.

The latest deregulation measures (the 27 October 1988 package and the 21 November 1988 package) were formulated in such a way as to prevent the labelling of those measures as 'liberal' and leading to 'free-fight competition'. [Instead, they] talk of the implementation of 'economic democracy' and 'participation in development'. This distinction might not strike many people as important. But it is, because the…defence of regulation, which is [opposed to] liberalisation of the economy, is in itself a constraint on future deregulation policies. Such vague anti-liberalisation has strong political roots, not only within the state, but most importantly, within the political elite…

[e] Budget Year 1988/89.

Every attempt to further deregulate the economy, and this is still important in many sectors, has to be very careful not to invite negative responses from the political public. It is of the utmost importance for the technocrats (who have become the source of the economic policymaking process) to defend their position without giving in to accusations from the regulation forces… Even when using words like economic efficiency, one must remember the obsession of the political elite with social justice or even economic socialism, which constitutes a strong and permanent constraint on continuing deregulation. Accordingly, a completely deregulated economy is virtually impossible.

The political economy of the Indonesian deregulation policy process

It is clear that the regulation forces, consisting partly of government officials and businessmen taking advantage of the distorted market resulting from regulation, will be against deregulation policies. The deregulation forces, on the other hand, are actually small in number. One would include among them the technocrats in the cabinet and the bureaucracy, intellectuals and private economists concerned about the general nature of the market for goods and services, and businessmen being unfairly excluded by regulation. One advantage the small deregulation forces have is their…articulate ways of expressing their thoughts, conveyed through newspaper and news-magazine articles. Another factor working to their advantage is the pro-deregulation position of international financial and trade institutions, such as the International Monetary Fund, the World Bank, and GATT, that must always be taken into account by the Indonesian government because of the importance of foreign aid to the Indonesian economy. The debt service ratio for 1988 is assessed at 35 per cent by the government[f] and close to 40 per cent by many private economists.[g]

Looking at the political elite and the political public, there is far from widespread acceptance of deregulation. Some members of parliament have already reacted by stating that the latest deregulation packages have the potential to make the Indonesian economy a liberal one. This of course does not mean that deregulation could be stopped at this stage. At present there are simply not enough resources at the government's disposal to increase growth through government investment and expenditure. Thus, since the oil price drop…it has also been [necessary to] increase the value of taxes, together with a broadening of the tax base. But at the same time, there is a limit to deregulation because of the reluctance of the political elite to accept capitalism and the role of Indonesian Chinese business in the economy. The problem then is to assess the level of

[f] See Yahya Muhaimin, 'The Politics of Client Businessmen', 1982 PhD Thesis, Massachusetts Institute of Technology.

[g] President Soeharto's budget speech to Parliament, January 1988.

acceptance of the deregulation measures so far. It appears that there are obstacles in understanding the actual level of acceptance among the political public. For example, the Indonesian Chamber of Commerce (KADIN) appears to accept the deregulation measures more enthusiastically than the government-controlled political party, Golkar. Although Golkar appears to formally accept deregulation, it is clear that its officials think that the government's role in the economy will always, and must always, be important. This would exclude the desirability of a capitalist economy.

With regard to economic institutions, it is clear, especially for state-owned enterprises, that their power is mainly based on licences and the manipulation of the quantity of goods and services. The difficulty in deregulating such economic institutions to produce a more competitive market lies in the strongly held belief in the Constitution, and more importantly in the way it is implemented to emphasise the growth and development of cooperatives.

Prospects for deregulation

Unless the government succeeds in selling [the desirability of] deregulation, the political public will have a hard time accepting it. But another, and probably more difficult, problem is the interrelatedness of regulation forces and the political power structure. In the end, if a choice must be made between further deregulation and the maintenance of the power structure, then deregulation must be sacrificed. But on the other hand, if external conditions such as increased foreign debt, oil prices decline and world recession, create pressures for further deregulation, then the clash between economic needs and political factors will become more intense and heated.

Mari Pangestu (1992)

ONLY HALF-HEARTED DEREGULATION

From *'Deregulasi Belum Tuntas'* (Deregulation is still Incomplete) *Tempo* 18 July: 34–35.

A package of only half-hearted deregulation policies in July 1992? Such was the initial impression of many observers, including this author. The long-awaited deregulation of the non-financial sector came after a mountain of expectations had already built up. But last week's announcement was an anti-climax. Some thought that this package in July *[Paket Juli, 'Pakjul']* had only been prepared as a 'prize' to be presented at the first meeting of the CGI (Consultative Group on Indonesia) in Paris this week. This would follow the pattern of the May 1990 and June 1991 packages [of deregulation policies].

Much of the criticism of the *Pakjul* touches on some fundamental issues, and doesn't just discuss what is and is not contained in the package. So we should

reexamine some of the central ideas that are involved in the debate on deregulation.

Trade and industrialisation

Firstly, there is the deregulation of trade through the reduction of tariff and non-tariff barriers. The most important non-tariff barriers eliminated in the *Pakjul* were for steel and used machinery imports. This is important because [the elimination of] both will reduce production costs for downstream producers. This reduction of non-tariff barriers is a continuation of measures in the previous deregulation package. After June 1991 the share of imports subject to import regulations fell from forty-three to thirteen per cent… The *Pakjul* will further reduce the share of imports affected by import regulations.

Yet there are many commodities and products left untouched by the *Pakjul* especially in agriculture, agricultural processing and manufacturing. About thirty-five per cent of the non-tariff barriers that remain are for imports of flour, soybeans, sugar, rice and powdered milk. The second largest category…is for inputs for the automotive assembly and heavy machinery industries (such as engines and bulldozers). Importing flour, soybeans, sugar and powdered milk increases the cost of major food processing inputs. Agriculture also has a great capacity to absorb labour, both directly and indirectly, because of its ties with plantations and with food and drink processing. And sugar is needed, not only for food processing, but also for industries like pharmaceuticals. Consumers would benefit from lower prices and products of better quality, [but] increasing costs reduces the efficiency and competitiveness of these industries, effecting Indonesia's industrial diversification.

The justification for regulating agricultural imports is that protection will improve the welfare of farmers, guarantee stability in food stocks and prices, and promote cooperatives (such as for fresh milk). With the exception of rice, people should ask themselves, have these aims really been achieved? If the objective is to promote fresh milk cooperatives, for example, wouldn't it be better to move to gradually reduce tariffs?

It turns out that protection for the automotive industry was not mentioned in the *Pakjul*. Everyone outside the automotive industry thinks that it has long enjoyed a high level of protection and that it is time to reduce protection, so that consumers can benefit from more reasonably priced vehicles and so that rationalisation of this sector can begin. The government's response? The government's argument is that deregulation of the automotive sector is being finalised because it is a sensitive matter, involving many different parties.

Certainly, there are always problems with reducing protection because, of course, it involves the investment plans and entails redundancies. Reducing protection, therefore, must always be carried out in stages. But the phases and time-frame for reducing protection remain unclear. If the plans and phases are not publicised, business groups that have enjoyed protection can always twist the

facts, saying that they were counting on protection when they invested. If this is changed, then consider the investment that would be lost—so protection should be extended for a few more years. Business cannot be blamed for this. They are behaving rationally by including calculations for protection in their plans.

It is therefore crucial that the government indicate the direction, phasing and plans for reducing protection in the automotive industry and other sectors. Business can then plan adjustments in sectors that would no longer be profitable without protection. For the automotive industry specifically, rationalisation should be considered, and deregulation follow.

In the same vein, the government should also clearly indicate those areas in which protection may increase. This is important for the plans of potential investors in targeted sectors—as well as investors and producers in affected sectors. At the same time that deregulation is proceeding and tariff barriers on imports being reduced, there has recently been a tendency for a stronger import substitution drive, requiring protection, for example, of olefine. If olefine producers gain protection in the form of tariffs, the rise in the cost of raw material inputs will mean that downstream producers will also seek protection. The final end-product of olefine is plastic, the most important raw material for almost all industries. We can imagine the consequences should this trend continue.

Indonesian industrialisation strategy is thus at a crossroads… We often hear the complaint that the success in increasing non-oil-and-gas exports has been accompanied by an increase in imports, and that we are only 'putting together' what foreigners produce; that they still dominate the markets, inputs and technology. This is certainly true. It is the fate of all 'newly' exporting countries. What is often implied by this polemical argument is increased protection and the selection of targeted industries, so that downstream industries…can grow stronger with import substitution. The argument is made to extend special facilities to various downstream industries such as petrochemicals, machinery, transport vehicles, and heavy machinery. It is an argument with which we are all familiar.

But is this the best way to deepen our industrial structure? Another question which needs answering is: does the government want a policy for 'targeting' certain industries? What are the selection criteria? Who does the selecting, and can the process be transparent? For how long will protection and special facilities be provided? How do we determine both the criteria and incentives, so that those receiving protection will really increase their efficiency, and, after a certain period of time, no longer need protection?

Foreign investment

A second group of questions that arises from the *Pakjul* concerns foreign investment incentives. The *Pakjul* allows foreign investors to gain forestry concessions in joint-ventures in plantations. Taken together with the Presidential

Decree of 17 April [allowing] 100 per cent foreign ownership of shares in companies with PMA-status,[5] it can be said that the government has now completely recast its foreign investment policy. Many still believe that foreign ownership of land and 100 per cent foreign ownership can harm the national interest. So this has been a positive step. But what does need further examination is, what does the government want from foreign investment? What policy should be followed so that new regulations are consistent? If the government can accept foreign ownership in plantations, why must it be limited to joint ventures? Why shouldn't [deregulation] be thorough and general? Isn't the right [to own] water on Bintan Island now open to foreigners? So why can't 100 per cent foreign-owned companies also have this right?

The policy approach to foreign investment has up to now has been coloured by considerations of the national interest and the fear of being 'exploited' by foreigners. Regulations such as those for the transfer of capital to Indonesians and for indigenising management are intended to increase Indonesian participation in foreign investments. What needs to be asked is, can the government regulate ownership to prevent foreigners from 'domination'? Foreign investors always have ways to by-pass regulations. Foreigners who want rights to land can always use Indonesian nationals. Have the various ways of transferring shares to Indonesians which have operated until now—such as the sale of shares on the stock market or through inviting sleeping partners—truly achieved the objective of increasing Indonesian participation and the benefits Indonesia has obtained from foreign investment?

The result has been a process which is not transparent and which has increased transaction costs. It is important that we reconsider what it is that we want from foreign investment. In particular, we have to think of how it can be made more beneficial for Indonesia. The application of technology and market access can only take place if human resources and domestic company networks are able to absorb it.

Conclusion: deregulation and equity

Finally, what about the equal distribution of wealth? We often hear criticism of deregulation for making only the big companies happy. [But] I do not think that it is possible to deregulate industries by aiming to help small- and medium-scale business. The objective is to promote companies that are all efficient—whether large, medium or small.

We also often hear that deregulation exacerbates the social gap [between rich and poor]. But we think that it is placing too great a burden on deregulation to expect it to be able to solve all our problems, including that of economic equity. Deregulation is undertaken to increase efficiency; we need other policies to realise the targets of economic equity and reducing the social gap.

In conclusion, it is time that the polemical debate on deregulation left off evaluating the contents of each package and turn to more fundamental issues.

Taken together, all of the above discussion poses the question, what is the role of the government? What should be the government's role in today's post-deregulation era? Basically, it is to intervene if market forces do not function. It should be realised, however, that deregulation entails increasing the role and interest of the private sector in determining the rate of growth and the quality of a country's growth. Deregulation must therefore be thorough-going. It cannot go only half-way, or change direction away from supporting the private sector. The most important role for the government is to act as a friendly facilitator to the private sector, as the enforcer of laws, and to determine policies for economic equity and reducing the social gap.

NOTES

1 For details on the oil price collapse, see the Introductory chapter to this volume.
2 The IGGI was suddenly dismantled in 1992 when J.P.Pronk, the Dutch Minister who acted as the consortium's chairman, angered President Soeharto with his scathing remarks on Indonesia's human rights record. Indonesia's refusal to accept further Dutch aid led to the creation of new consortium, the Consultative Group on Indonesia (CGI) led by the World Bank, largely through the speedy efforts of the technocrats in the Indonesian government. See Schwarz (1992) and Hill (1992).
3 Although this was mainly a 1970s vision, by no means has it completely disappeared. **In** fact a similar—though a significantly more high-tech one—enjoyed widespread popularity in the 1990s, mostly due to the high profile of the Research and Technology Minister and Soeharto favourite, B.J. Habibie. See the next chapter of this volume.
4 No relation to the previously mentioned Sjahrir, the country's first Prime Minister.
5 Companies can register as either 'Domestic Investment', PMDN *(Penamanan Modal Dalam Negeri),* or 'Foreign Investment', PMA *(Penamanan Modal Asing)*. There are different requirements and distinct incentives for each.

7
The continued appeal to statist-nationalism

INTRODUCTION

Despite the economic downturn of the mid-1980s, statist-nationalism has retained considerable popularity within government ranks, and a number of senior state officials have continued to urge that state resources be directed towards the construction of an integrated, industrialised and independent economy Although the vision of a strong and self-reliant economy able to deal on equal terms with other, more powerful, nations is shared by virtually all of Indonesia's planners, the distinctive feature of the ideas put forward by these officials is the emphasis they place on the role of the state, organising society to strengthen the economy. Many of the views of these officials are broadly similar to those put by proponents of an outward-looking form of economic nationalism in Chapter 3, and testify to the strength of this stream of thought in official circles. The buoyant economic conditions following the second oil boom of 1978/79 gave them the confidence to begin implementing some of the ideas that had already emerged. But from the mid-1980s these propositions now had to be put forward in a very different social environment. This chapter presents the arguments of the more prominent of these officials in the changed economic circumstances following the end of the oil boom.

During the phase of economic nationalism three state agencies had emerged as particularly powerful centres of official economic nationalism, and they generally maintained their institutional ideologies in the following years. One was the Department of Industry under A.R.Soehoed, who in the early 1980s launched his programme to rejuvenate the industrial sector.[1] His successor as Minister of Industry, Hartarto, whose contribution appears below, is also a keen proponent of a structural reorganisation of industry. A second institutional base for statist nationalism was the BPPT *(Badan Pengkajian dan Penerapan Teknologi,* the 'Agency for Technological Research'), a high-powered body established in 1978 and chaired by the influential Minister of Research and Technology, B.J.Habibie. BPPT was reportedly founded to continue the large-scale industrialisation projects originally begun by the state oil monopoly, Pertamina, and Habibie has imbued it with a strong institutional

ideology to promote technologically advanced industries.[2] Finally, the political influence of the powerful Secretary of State, Sudharmono, increased considerably in the early 1980s. Using his power base within the bureaucracy and subsequently the ruling party, Golkar, he mounted a strong challenge to the political influence of the Armed Forces and the economic influence of the technocrats. He and his close associate, Ginandjar Kartasasmita, became chairman and vice-chairman of a powerful body centred on the State Secretariat that used government contracts to promote indigenous business groups.[3] Although these three state agencies have very different political agendas and often conflicting interests, the common feature of the development schemes of the Department of Industry, BPPT and the State Secretariat is the emphasis they placed on the role of the state in guiding the development effort

By the mid-1980s supporters of statist-nationalism faced an intellectual environment far more diverse than it had been in the past. Non-state critics continued to draw on a combination of indigenism and Western intellectual trends to promote a populist, 'bottom-up' development alternative. This approach still enjoys considerable popularity amongst NGO and student circles, as the following chapter shows. And by the mid-1980s economic liberalism had a new legitimacy in development debates, as we have seen. Statist-nationalism was thus only one of three schools of economic thought struggling to gain the ideological edge in development debates, and its proponents found it necessary to present more complex arguments to justify their proposals.

Of most immediate concern to statist-nationalists were the fiscal constraints on the state budget, for it reinforced the arguments of those pressing for further deregulation and a scaling back of state development aspirations. These pressures presented these ministers with a number of difficult policy issues. The first and most obvious concerns the choice of industries to be targeted. With falling state revenues, should Indonesia now concentrate on the primary sector and industries that were less technologically advanced, or should the government continue to allocate scarce resources to certain industries that were important strategically? Second, what would be the role of the market in these changed circumstances? The process of deregulation and structural adjustment set in train in 1983 was now a political reality, but what were the implications for the struggle for economic self-reliance? Could deregulation be incorporated within the framework of state-led development? Third, economic expansion had meant that the presence of the business class was felt ever more strongly. What would be the role of business in future development? To what extent should business influence policy-making?

The first selection represents one response to the challenges posed by the economic changes of the 1980s. **Ginandjar Kartasasmita** had led a campaign to promote local produce for a number of years, and shortly before this piece was published he was appointed chairman of the Investment Coordination Board (BKPM). Here, Ginandjar presents a rationale for his major policy initiative, a large-scale campaign promoting local products aimed particularly at the Western

consumption patterns of the middle class. The chief significance of the article lies in his proposals for industrial targeting to maximise the development effort A protagonist in the development of state-led industrialisation policies, Ginandjar considers economic self-reliance necessary for the country's very existence. He notes, however, that a number of international economic shifts have made Indonesia more vulnerable to external pressures which, taken together, mean that it may lose control of its destiny.

Acknowledging that the protectionism of the past was excessive, Ginandjar suggests that certain industries should be allowed to simply fade away, and cites the example of the declining textile manufacturers of Majalaya—which had been a *cause celebre* for populist critics of government policy in the 1970s. He also accepts that Indonesia should promote those industries in which it has a comparative advantage *(keunggulan komparatif)*. But he specifically rejects the use of comparative advantage as the sole measure for selecting industries to be targeted, and argues that consideration should also be given to their strategic and political merit. Presenting a controversial argument, he refers to two industries that he admits may not be economically viable, but argues that they should be targeted because of their strategic importance; they are 'our bridge to the technologies of the future'.

Another prominent advocate of state-led development is Soehoed's successor as Minister of Industry, **Hartarto,** a man who has also long entertained the vision of developing an integrated industrial economy. In this second selection the minister acknowledges that Indonesia's industrial sector has developed very rapidly, but suggests that it suffers from a weak capital base and a lack of inter-sectoral linkages. He puts forward a detailed development programme to integrate different sub sectors through conscious state intervention. There are three aspects of his scheme worthy of note. One is the importance he attaches to industry's adherence to state guidelines: 'Industrial development is something that has to be handled conceptually, in a coherent way, and based on national studies.' A second is the emphasis he places on promoting the largely indigenous small-scale sector by means of what he refers to as *keterkaitan,* 'interlinkages', a programme similar to the 'Foster Parent' scheme begun by Soehoed. 'The third is the minor part to be played by the private sector, which he recognises will be crucial to the scheme's success. But for Hartarto its prime function is limited to the implementation of state policy. The government should continue to direct the business community so that it will recognise business opportunities [and] remain aware of the programme of interlinkages.'

Perhaps the best-known advocate of state-led industrialisation strategies in Indonesia is **B.J.Habibie,** and the third selection provides a succinct summary of the ideas of this policy-maker whose political star has risen steadily since the early 1980s. Habibie is a technological determinist who considers technological change the catalyst to far-reaching social progress. The transformation into an industrially and technologically advanced nation is an absolute necessity for development, enabling people to produce useful goods and services, to defend

their political integrity, and to increase their cultural wealth. The key to this process is to increase scientific and technological skills' (Habibie 1983:28–29, editors' translation). In the selection below, Habibie acknowledges that economic resources are now more limited, and proposes a detailed formula for selecting those industries to be promoted. Nine 'arenas' for Indonesia's technological transformation are described, evidently chosen on the basis of political and strategic considerations. Interestingly, and unlike most other proponents of economic nationalism, Habibie does not consider that Indonesia's economic weakness will hamper her dealings with stronger economies, and suggests that internationalisation can hasten development. The precondition for the realisation of this vision of social progress is, once again, strict state control and a domestic market absolutely free of foreign competition.

The final selection in this chapter is taken from an annual Presidential Address, and perhaps best illustrates the attempt by figures within this stream of thought to incorporate economic and social pressures of the late 1980s and early 1990s. There is some debate over whether President **Soeharto** can be categorised as a 'statistnationalist', for he has at various times supported the more liberal technocrats against their interventionist opponents. However, we do believe that the following excerpt is representative of his most commonly stated position. After placing the development effort in the political context of the struggle for independence, Soeharto provides a useful overview of the official perspective on Indonesia's economic transformation during the first five *Repelita,* the 'First Period of Long-term Development'. The liberalisation measures of the 1960s, he states, were undertaken primarily because of the economic difficulties Indonesia then faced. 'Step by step we had to put things in order' But by the 1970s the state could once again take control of the economy. 'Gradually the economy became normal again.' Indeed, he argues that the deregulation of the 1980s was just another stage in the New Order's programme, and should not be interpreted as leading to a diminished role for the state. 'They are certainly not measures to abolish the role of the state. It is definitely not a step towards liberalism.'

The economic ideas expressed by these state figures in the four selections below have many similarities with the statist-nationalism of the mid-1970s. The common thread to these different perspectives is, as one would expect, an emphasis on state supervision of the economy. Beyond this, however, there is some divergence of opinion. Habibie, for example, considers economic internationalisation to have opened up new opportunities for Indonesia, whereas Ginandjar believes that internationalisation may constitute a threat to the nation, undermining the effort to develop a self-reliant economy.

It is this latter perspective which is more representative, for the general tone of these contributions is more reactive than that of the past. Both Ginandjar and Hartarto, for example, offer their support for the application of 'comparative advantage' as a policy measure, a clear concession to economic liberalism. And even Habibie ends his contribution with a plea for state protection. 'Is it too much to ask that Indonesian producers be given such a short time to seek to

achieve this new dimension in the life of our nation?' Finally, President Soeharto warns against interpreting the deregulation measures of the 1980s as a shift away from planned change, but concedes that deregulation was necessary. Statist-nationalism remains the common discourse for development policy within state circles, but these examples strongly suggest that since the mid-1980s statist-nationalism has been responding to a policy agenda that is, increasingly, determined by social and economic pressures external to the state.

Ian Chalmers

Ginandjar Kartasasmita (1985)
TO BUILD NATIONAL ECONOMIC RESILIENCE

From 'Daya Tahan Ekonomi dan Kekuatan Dalam Negeri' (Economic Resilience and Domestic Strength) *Prisma* 6, 1985:42–47. Note that the words emphasised are as in the original.

The economic foundation of a self-reliant country is its capacity to satisfy its requirements for goods and services domestically. This does not mean that the country will 'close itself off', because no nation in the world can actually supply 100 per cent of its people's necessities from domestic sources; certain things must be imported. But in order to guarantee its survival a country should supply essential requirements like food and clothing from domestic sources, as far as possible. To a certain extent industry should be self-reliant. This is the political vision [behind] why our nation, which has now been independent for about forty years, is supporting a national movement to use domestic produce.

There are several important challenges that led us to decide now was the right time to promote the use of domestic goods… The *first* was the serious challenge caused by the population explosion in the late twentieth century. Indonesia's population is increasing very rapidly, and people will need clothing, food, accommodation, education, employment and so forth. There may be socio-political unrest if we are unable to satisfy a minimum of these needs. Social problems such as rising criminal activity and the disruption of public order and security are largely due to the population problem… Work opportunities have not grown rapidly enough to absorb this growing workforce. Our society is characterised by mutual help and an orientation towards the family, so many business sectors suffer from under-employment and disguised unemployment…

Second, the use of natural resources has changed. World demand for the natural resources of developing countries like Indonesia has altered. Not long ago [we] had a comparative advantage in oil, for example, which provided for the Indonesian people. But this has now declined in importance. The advanced countries found alternative energy sources for their economies; future technological developments may bring an end to the need for oil altogether. This means that our natural resources will no longer be in demand in the global

market… This change threatens our future as a nation and state. We therefore need to take precautions to prepare ourselves for the arrival of this new age. We can no longer rely on being able to sell our natural resources, but should sell finished goods. This way we will obtain greater value-added. We used to sell rubber, now we sell tyres. Several years ago we sold timber logs, but now we market plywood and sawn timber.

Third, there is rapid technological development as countries compete to outdo each other. Other countries are travelling with the speed of a car, but our technology is moving like a tri-shaw *(becak)*… This situation will leave us far behind, and if it persists our nation will have little resilience in international affairs… We will be vulnerable to political, economic and cultural penetration by other countries. In the future, a country will not need to use military force to conquer another country, but can simply come with its technology. They will launch attacks by controlling how people in other countries think… If we buy computers, but cannot repair or maintain them ourselves, we will always be dependent on the country that sells them. It will be through computer technology that they will have a foothold in our country. If our computers break down and they won't supply spare-parts, this will interfere with our work. This kind of control is far more effective than military force. If we allow it [to happen], our sovereignty will come under threat. Our rights as an independent nation able to decide what is best for ourselves will cease to exist, because we will be dependent on what other people decide. We will be forced to permit it, because we will have no alternative.

The technological level of a nation is reflected in its capacity to produce goods and services. If we are not able to meet what people need from domestic industries, then we will be technologically weak. The campaign to use domestic products is therefore important politically to strengthen our sovereignty as an independent nation. In *Repelita* IV we are preparing the runway for the take-off stage in *Repelita* VI. According to our formulation, take-off is the stage when the Indonesian nation grows and develops based on its own strength. It is this target of self-propelled growth which we must meet.

Modernity and tradition in import substitution

The foreign and domestic investment policies of 1967 and 1968 were intended to improve the industrial infrastructure destroyed by the economic and political policies of the previous government We agreed that industrialisation and modernisation was a short-cut to meet the basic needs of a population of about 100 million at the time. The people's need for textiles, for example, could not be met by the traditional industries of Majalaya, Pekalongan and Solo. So that we could become self-sufficient in basic needs, the problem just had to be met the modern way. And we have achieved it! Many people regret the impact of modernisation in this sector. Victims were left scattered in Pekalongan and Majalaya as a result of the industrialisation and restructuring of textiles. But

those traditional business people who had an entrepreneurial spirit were not dismayed by the entry of new domestic and foreign capital. They formed joint ventures with them, and their businesses prospered…

The industrialisation strategy we chose was a strategy of import substitution. This was easier because the domestic markets were there, and to establish new industries all we had to do was extend marketing arrangements. But after a number of years it became clear that we could not continue with this strategy: it was not really economical to replace everything with domestic goods. We had to count the costs and the benefits. We had to decide what raw materials were cheap enough to import and what domestic industries need not be established because their products would inevitably be expensive. We need bread, for example, and Indonesia has flour reprocessing factories. But we don't produce wheat. How stupid it would be to plant wheat in Indonesia, because it would turn out to be very expensive! It is better to import so that the consumer can afford the finished product.

We must now orient ourselves to developing industries that are firmly based on our own natural resources, namely resource-based industries. We are promoting industries in which we have a comparative advantage like petrochemicals, plywood, fisheries, agriculture and *kretek* cigarettes. It is here that our finished products can compete with other countries, and there are many opportunities to promote these industries. On the other hand, there are a number of exceptions where Indonesia must promote industries in which we do not have an comparative advantage, such as the PT Nurtanio aeroplane industry and PT Krakatau Steel.[4] Although we do not have sufficient iron ore, Indonesia has begun these industries because of their strategic value. We are building these industries because they are our bridge to the technologies of the future. Our young workers must develop their skills, so that we won't be left behind by the technology of other countries. Technology is certainly expensive, and we must buy it.

There are three main programs to promote the use of domestic products and strengthen our economic, political and social self-reliance. *Firstly,* domestic industries are protected so that they can withstand attacks by foreign industries. The industrial sector in Indonesia has just begun to grow, production is small in volume, labour is still insufficiently skilled and marketing is still weak… Our domestic industries can be compared to a small child who has just learned how to walk, but has to immediately confront foreign industries that are hundreds of years old. We must protect domestic industries so that they can compete. We do this by placing high import duties and tariffs on imported goods. Imports will thus be expensive, and people will have two choices: buy domestic goods which are cheap, or choose foreign goods that are expensive. This policy [thus] 'compels' the consumer.

The *second* policy is to upgrade domestic industries so that they grow naturally and are not pampered by protection. Upgrading begins from the time when companies are selected so that not too many entrepreneurs enter the one

business. Supporting regulations then facilitate exports. Business people are regulated and selected in each business activity so that they achieve a high level of productivity and efficiency. As long as a sector is not monopolistic [in character], our policy is to restrict the number of entrepreneurs…

The *third* program is to campaign for Indonesians to choose domestic rather than foreign products. We are fostering new cultural and social values: [making] it patriotic to use domestic goods, reflecting a love for the homeland and an appreciation of our own capabilities. In fact, if Indonesian consumers preferred domestic products to imports, then protection through high import duties would not be needed. Fostering this consciousness is a task of strategic value, requiring a considerable period of time.

The middle class creates fashion

Clearly, the task of campaigning for the use of domestic products is very difficult, for we face psychological barriers which cannot be changed overnight. Many suspect domestic products of being of poor quality. People think it impossible for Indonesians to produce something that is good, and that foreign goods are bound to be better. This lack of self-respect has already gone into our blood. Perhaps this attitude has developed because we were colonised for hundreds of years. Our older generation still believe that things were good in the 'normal age' *[zaman normal],* when the Dutch colonisers ruled. People still respect and exaggerate the abilities of other nations.

Nevertheless, industrialisation has given birth to a new social grouping in Indonesian society, the middle class. They can generally afford expensive goods, and are better acquainted with foreign goods. They have money and are able to spend it overseas or in luxurious shops in Jakarta. A new consumerism for foreign and imported goods has emerged. They determine fashion and what people choose. If someone buys a 'Bally' shoe brand, for example, then others will buy imported shoes rather than choose something from Cibaduyut.[5] Similarly, if a woman owns a 'Gucci' bag other members of this new class will follow her example. It is these people who create the desire for foreign goods.

The trend towards foreign goods is not limited to young people and the middle class, but also people of lower social strata. People making the pilgrimage [to Mecca] are proud of the prayer-mat *(sajadah)* they bought in Saudi Arabia. But when we look closely we find that there are no industries for these products in the Holy Land; they are made in China or Hong Kong. This pride in using products made in other countries is worrisome, and we have to act quickly to change the situation. We must quickly promote love for our own products. This campaign is aimed at groups such as youth, university students, boy scouts, girl guides, and school students. In order to encourage a new patriotism, we have disseminated leaflets with the slogan, 'I love Indonesian products'. Our campaign also uses educational channels, including 'love for domestic products'

in the school curriculum. We are also cooperating with the Department of Religion and the Islamic Scholars Council of Indonesia (MUI).

This is why we need to explore possibilities for developing the large potential of our domestic market. Our economic resilience must be based on domestic market strength, by stimulating industries that utilise Indonesia's natural resources. We must really take command of our own comparative advantage because world consumption patterns are changing. We need to increase our ability to reprocess raw materials into finished goods so that we can increase their value added. This is the major challenge we face in the remaining fifteen years before we enter the twenty-first century.

Hartarto (1985)
CULTIVATING AN INTEGRATED 'INDUSTRIAL TREE'

From 'Menumbuhkan Pohon Industri dan Keterkaitannya' (Cultivating an Industrial Tree and its Interlinkages), *Prisma* 5, 1985: 65–70.

Although there are a number of fundamental problems that still need to be solved, during the period of Repelita I to Repelita III [1969–1984] promising progress was made in the industrial sector, an integral part of the national development effort This sector has been successful during these three *Repelitas* in terms of the improved quality of its goods, its increase in output and the greater variety of industries. Industrialisation has now given us the capacity to manage industrial enterprise units ourselves, while it has created more business and employment opportunities, spread industry into the regions, increased the number of skilled and qualified workers, and enhanced our technological capacities… Nevertheless, when we evaluate the results that we have achieved and to [further] develop the industrial sector, we still face a number of difficult problems that must be overcome.

Firstly, our industrial structure is still weak, as is clear from the weak linkages which exist within the industrial sector and with other sectors of the economy. We see that it was only in *Repelita* III that the initiative was taken [to develop] basic and upstream industries to really strengthen our industrial structure and increase value-added. Moreover…the rising cost of raw material imports and the continued dominance of primary material exports has resulted in imbalances in the external balance of trade. This situation must be rectified as soon as possible by developing interlinkages between industries, between industry and services, between industry and other economic sectors, and between large-scale, medium-scale and small-scale industries. Implementing this programme of interlinkages should be carried out on the basis of one economic principle, namely mutually beneficial business relations.

Second, our industrial sector is weak in terms of its capital base and its technological capability, specifically our design and engineering abilities. Our weak capital base means that our ability to expand business is severely limited. Our design and engineering capacities are so weak and our technological capability so limited that certain industrial sectors have not even been touched—yet other sectors are approaching the point where they are saturated. It is for these reasons that the government continually instructs[6] the business community to recognise business opportunities and to continue to pay attention to the programme of interlinkages.

We need to see *Repelita* IV as the stage when the industrial sector will lay the foundations for take-off in *Repelita* VI. We are currently promoting industry so that it will deepen and solidify its structure as much as possible, while linking it to other economic sectors… The two important elements in this effort are to upgrade existing industries and give correct instructions to newly emerging industries. On the basis of completed national studies, each industry is promoted [so that it will] pay attention to domestic and foreign market opportunities, technological development, scales of economy, and comparative advantage.

The industrial tree and its linkages

Industrial development is something that has to be handled conceptually, coherently, and be based on national studies [so as to create] broad linkages with other sectors. We have completed a national study of basic chemical industries, including cellulose (pulp, paper and rayon), rubber, agrochemicals, organic chemicals, gas, sheet glass and cement industries. We have also completed a study of basic metal industries, and determined the eleven national companies that will manufacture machine tools… The Department of Industry and the World Bank are currently conducting a study of the metal industry, specifically forged steel. A national study is being conducted with the Department of Agriculture into the agricultural machinery industry… A national study of the heavy machinery and construction industry has been completed and is being used in policy formulation… Based on a study of the motor vehicle industry, seven companies have been chosen for the manufacture of motor vehicle engines… Because of the increased use of freight cars…we are preparing a study for developing the train industry. A study of the shipping industry has been completed, and is being used to promote the national dockyard industry to create an armada of commercial vessels. A special case is the aircraft industry, which is being handled directly by PT Nurtanio as Indonesia's sole assembler and manufacturer…

The problems faced by small-scale industries generally involve the marketing of their products, which is the focus of our programme. It will be resolved through the programme of interlinkages, which entails increasing the linkages between small, medium- and large-scale businesses, and [with] the service sector, including shops, supermarkets, traders, hotels and exporters. Our programme of

interlinkages has actually been implemented by Japan and South Korea. Japan's MITI (Ministry of International Trade and Industry) even has an official specifically in charge of sub-contracting to carry out this mission. It is through their programmes of interlinkages that these countries have been able to produce high value-added goods and have become industrially advanced…

We can actually trace back the linkages between sectors to see a pattern like that of an 'industrial tree'. For example, sugar cane cultivation creates all sorts of industries. The plant produces pulp, cane juice and leaves… The cane juice is reprocessed into sugar and molasses. Refined sugar is consumed by the general public and cake/ biscuit industry, while molasses is reprocessed into caramel, alcohol, natural acids and other basic chemicals for industry.

There is also a very extensive 'industrial tree' for forest products, and here we have a comparative advantage over other countries. Logs are obtained from the forestry sector, and what is not used is reprocessed into materials for industry. The lumber industry produces the plywood and boards that are used for industries like furniture, hardboard, sports equipment, construction materials and boxes. Pulp can be produced from the waste and used for producing paper and rayon. The book, stationery, tissue and textile industries can thus develop, because they make use of the residues from the forest product industry.

Our mission of creating equity and absorbing labour

During *Repelita* IV the programme of manufactured exports must be continued so as to achieve the targets set for *Repelita* VI, and so that they contribute significantly to non-oil and non-gas exports. Here, the private sector will play a very large role, so exporters must increase their capacities. We shall promote those commodities which have the potential to become competitive and a mainstay [of the economy] in the future by looking for opportunities in other countries. South Korea, Hong Kong and Japan grew very rapidly, because their economic growth was supported by external trade. It is for this reason that national companies must become trading companies to market our exports internationally… The task of marketing these goods must not fall to the Trade Attaches in our overseas embassies, but to our national entrepreneurs…

It is estimated that during *Repelita* IV 1.4 million new workers will be absorbed into the industrial sector. Small-scale industries are expected to absorb 930,000 new workers, miscellaneous industries 400,000, and the machinery & basic metal industries (IMLD) and basic chemical industries (IKD) 35,000 workers each… The discrepancy in the absorptive capacity of these four industries relates closely to their different missions, technologies and [level of] invested capital. The machinery, basic metals and basic chemicals industries have the mission of economic growth and to strengthen the industrial structure by using advanced technology. Consequently, they are not labour intensive, but stimulate downstream small-scale and service industries. The category of miscellaneous industries bears the mission of growth and equity using advanced

and intermediate technologies, and therefore may or may not be labour intensive. But the category of small-scale & cottage industries uses medium and simple technologies, is characterised as labour intensive, and bears the mission of equity…

In order to prevent the development of basic or key industries from giving rise to enclaves [of development] in underdeveloped regions, a concept of regional development for growth in industrial zones must be formulated. This concept is termed 'Industrial Growth Centres' (WPPI). Within these centres there are industrial zones, industrial estates, small-scale industry locales (PIK), small-scale industry facilities (SUIK) and small-scale industry centres. These Industrial Growth Centres are places in which industrial growth and economic development is stimulated by basic and key industries, and where basic industries, miscellaneous industries, and that decisive element for regional economic development, small-scale and handicraft industries, are [all] grouped together.

B.J.Habibie (1986)
INDUSTRIALISATION AND THE TECHNOLOGICAL TRANSFORMATION OF A NATION

From 'Industrialisasi, Transformasi, Teknologi dan Pembangunan Bangsa'[a] [Industrialisation, Transformation, Technology and National Development], *Prisma,* no. 1, 1986:42–53. Note that the words emphasised are as in the original.

Our struggle to create a better tomorrow is our struggle for self-realisation, to turn ourselves into a modern Indonesian nation. We are engaged in…the process a nation undergoes to develop its own identity and philosophy, to develop its own lifestyle and special forms of cooperation, and to realise its economic, cultural and political potential as a distinct national unit. 'Nationhood' thus means much more than achieving formal political independence. It is characterised by capacity for economic self-reliance, by success in maintaining cultural identity, and by the power to maintain political integrity. Economically, nationhood means a capacity to produce the goods and services we need, as well as goods and services [for] the world market— which we can trade for the goods we need, but cannot produce economically.

Particularly important in all of this is an ability to master and develop technology Without such ability, even the greatest abundance of natural riches will not become wealth that is mastered. By the same token, once science and technology

[a] I would like to thank the BPPT staff for their help in providing statistical data, and to S. B.Joedono for his editorial assistance with this article. Parts of this article have appeared elsewhere.

are mastered a scarcity of natural resources need not be an insurmountable obstacle. Just look at Japan!…

It is not a simple thing to master the science and technology [required] for national development. A number of principles must be observed. *Firstly,* there must be scientific and technological education and training in areas that are relevant to national development needs… *Second,* there needs to be a clear and realistic concept of the future society which will be constructed, as well as the kind of technology needed to realise it… Such technologies are not necessarily the simplest, [but] might be even the most advanced in the world. The one and only criterion [for deciding] whether a certain technology is appropriate or not for a technologically underdeveloped nation is its usefulness in solving the concrete problems of that nation.

The *third,* and perhaps most important, principle is that technology can only be transferred, applied and improved if it used to solve concrete problems; technology cannot be understood and developed in abstract terms… *Fourth,* a nation that wants to become technologically advanced cannot always continue to be a net importer of technology. At some stage it must be able to develop its own technology. *Fifth,* all nations that become technologically advanced must in the early stages of their development protect their national technological capacities until they reach the stage when they can compete internationally.

The transformation process

The transformation of a society into a technologically and industrially advanced nation can be considered to consist of four overlapping stages. Three of these are relevant to developing nations, while the fourth is critical for countries seeking to defend their technological superiority.[b]

The first and most basic stage is the use of existing technologies [to create] value-added in existing goods and services …At this stage, technologies and management are used to transform raw materials and semi-processed goods into finished goods with greater value. This is why this process is called the value-added process…

The *second* stage in this transformation involves integrating existing technologies into the design and production of goods and services that are completely new. New designs and blueprints are developed. There is thus a new element, namely the element of creation… The development of design expertise and this capacity to integrate will create opportunities to choose the most suitable technology from all the available technologies of the world, including the most recent.[c] This opportunity will come automatically, without cost. The reason is that the producers of components will vie with each other to offer designs and

[b] This following description is the same as in my speech delivered to the *Deutsche Gesellschaft fur Luft-und Raumfahrt*. [See Habibie (1993).]

products to companies known to be going through this process of technological integration…

The *third* stage is the stage of developing technology itself. At this stage, existing technologies are developed further and new technologies are created. All of this is carried out to get ready to design products in the future. The *fourth* stage is large-scale basic research. The primary motivation for those who go through the third stage is that they often find that they lack the theory necessary for further technological development. This stimulates them to carry out basic research to fill [this gap]. Except in special and unique cases, where a developing country is forced to develop by itself, it is more beneficial for a developing country to obtain the results of such basic research from advanced countries by means of some sort of cooperative arrangement…

Theoretically, these four transformative stages can be applied to any sector provided that its activities are based on science and technology. But funds and resources are usually limited and must be used efficiently This means that priority…must be given to the transfer and development of technology in those value-added processes which qualify for becoming arenas for the technological and industrial transformation of a nation.

The arenas for transformation

Selecting those products that qualify as arenas for technological and industrial transformation will be done on the basis of factors such as geography, natural resources, economic growth rates and the size of the domestic market. In Indonesia, the choice of products takes into consideration [the country's] strategic geographical location, its large market now and in the future, and national perceptions of present and future political scenarios in Southeast Asia… The first necessary, but insufficient, precondition, is to implement progressive production plans, allowing…deeper, step-by-step penetration by national producers of the relevant technology. The second condition, which is necessary and sufficient, is that a protected domestic market exist for the production of such goods and services, thereby providing the opportunity for domestic producers to expand to a point at which they can compete internationally…

Given Indonesia's geographical size and composition, as well as the need to enhance its political integrity and economic unity, all transport industries meet the preconditions for becoming arenas for Indonesia's technological and industrial transformation. This includes the aircraft industry, the maritime and shipping industry, and land transport industries such as motor vehicles and

[c] The design and production of the two-engine CN-235 aeroplane…by CASA of Spain and IPTN in Bandung is an example of this second stage of transformation in Indonesia. Other examples of the application of…stages to the arenas of Indonesia's industrial transformation are provided in Habibie (1983).

railways… Another industry which meets these conditions is the electronics and telecommunications industries. These four industries are the most appropriate arenas for the transfer and development of all the technologies needed during the next twenty years via three of these stages—and perhaps also the fourth.

Greater employment opportunities will be created by developing these industries. People's incomes will rise… With the rise in people's incomes there will also be greater demand for energy. The energy industry can thus be identified as the fifth arena for transformation. This includes the manufacture of turbines, generators, heat exchange instruments and instruments for transporting and transmitting energy. With the rising need for instruments and machinery to process energy and mineral resources, as well as such Indonesian agricultural products as sugar, palm oil, petrochemicals, cement and paper, the engineering industry becomes another arena that meets these preconditions.

The seventh arena [for this transformation] is the production of agricultural machinery. Cultivable land in Java is becoming increasingly scarce. Agriculture outside Java, where land is less fertile, therefore needs to be increasingly expanded…

Finally, in view of Indonesia's strategic location, its abundant natural resources, the growing investments in these industries and its increasing income levels, there is greater urgency to defend Indonesia from disturbances and threats to its order and security… National defence and security capacities must be improved, and the aircraft, shipping and land transport industries will provide the foundations for weaponry and weapon systems. Consequently, the development of these three industries will also make the development of defence industries more economically feasible.

The development of these eight industrial arenas for Indonesia's technological and industrial transformation [means that] other economic sectors will also grow. The markets for their products will expand with the increased purchasing power of these industries and their employees. These activities will grow rapidly and provide work opportunities for many people: food and clothing industries, cottage industries, road-building, housing, bridges, services, health, education, transportation and so forth. In all, this might be called the ninth, invisible, arena for transformation.

Conclusion: towards a new dimension in the life of our nation

At present, we have only a limited capacity to develop the technology we need to carry out everything we seek to do. Fortunately, the international market for technologies is quite open, while Indonesia is beginning to gain credibility as a purchaser of technology Recent advances in telecommunication technologies now allow knowledge and technologies to be transferred, in the shortest possible time, from where they originate to where they will be used. There are no technical obstacles to the transfer to Indonesia of whatever technology we need

for creating economic value-added, supported by the regional or national market. In addition, technological competition between the advanced countries is increasing. Consequently, no country is willing to risk being left behind by its competitors in offering to transfer technology to Indonesia.

The development of our industries and economic sectors through increased technical capabilities will raise people's incomes. Increased incomes will increase purchasing power. In a process that begins initially with increasing technological expertise in a few key sectors and then spreads throughout the economy, people's prosperity will increase and the domestic market expand, becoming the engine for further self-reliant development… The transformation process that America… and other modern industrial countries like Japan and Germany underwent indicates that the domestic market is the one and only engine for the transformation of a predominantly agricultural nation into one that relies on industry. Every new technological development in the transformation of these societies was financed by sales on the domestic market, including government purchases. Indonesia can be no exception to other nations in the world.

Consequently, it is an absolute precondition for the technological and industrial transformation of a developing country that it have a domestic market for the first, second and third stages of this transformation. This is why I state that a necessary and sufficient condition for an industry to become an arena for that transformation is the existence of a market which can be controlled [by that nation]. This means that the source for funding our transformation into a modern industrial nation will be sales on the domestic market, as well as capital made available by those prepared to participate in Indonesia's industrialisation effort. As is the case for other nations, when asked, 'what gives our effort to attain a better life for our nation its momentum?', the answer can only be, 'the nation itself'…

While we must always adopt a pragmatic approach concerning the arenas for industrial transformation, development within these arenas is now going forward. Such a movement always requires more energy. The public should be willing to allow its growing national industries the time to learn, the time to gain experience, and the time to make mistakes and overcome all kinds of infant illnesses. In 1994 we will achieve take-off. By 2025 the industries that constitute the arenas for Indonesia's transformation will be operating very efficiently, productively and at an optimal level. By that time, the motor for our industrialisation will no longer be limited only to the domestic market… It will also include regional and international markets. Is it too much to ask that Indonesian producers be given such a short time to seek to achieve this new dimension in the life of our nation?

Soeharto (1990)

THE STATE OF THE NATION

From the President's 1990 State Address delivered, as is customary, before the Parliament on 16 August, the eve of Independence Day. This excerpt, with slight emendations, is taken from pp. 6–8 and 21–35 of the provisional official translation.

The development of all sectors that we have carried out together has now gained a new momentum. We are presently in the final years of implementing the First 25-Year Period of Long-Term Development, [and] are now completing the basic framework for development. Afterwards, we will begin a new phase in our development, namely the take-off stage, when we are determined to continue development aimed at creating a society that is fully self-reliant. I once made an appeal to make the coming take-off stage the second 'National Awakening'. The first National Awakening was initiated in 1908,[7] and we will start the second National Awakening, God willing, in 1993. This makes us realise the long journey we have embarked upon, [moving] from a backward nation as a result of colonialism to an advanced nation in the realm of independence. We have been undergoing this process for almost one century…

By carrying out a planned, orderly and stage-by-stage development, our task is not merely restricted to defending the independent, united and sovereign Unitary State of the Republic of Indonesia. We have to give it substance, with prosperity imbued with justice and justice imbued with prosperity. This is our common major task in the years to come, which we will carry out in the take-off stage in the Second 25-Year Period of Long-Term Development…

The development we are presently carrying out cannot be separated from general global developments… The next century will be [largely] determined by science and technology, as all nations endeavour to improve the well-being and quality of their individual lives in a world that seems to be becoming more unified and smaller. We have resolved not to lag behind in these developments… Therefore, long before we begin the take-off stage, we have started to prepare the scientific and technological infrastructure… Science and technology must yield concrete benefits. This is the reason why guidance at a national level is needed. In order to give centralised guidance, the development and application of technology in state-owned companies is under the authority of the Agency for Strategic Industries[8]… The establishment of this Agency will hopefully serve as a stimulus for the growth of business enterprises in various fields, whether private or state-owned or joint ventures between the two, or between domestic enterprises and foreign companies. These developments can stimulate the emergence of strong industrial groups in Indonesia in the twenty-first century…

The economic successes I mentioned earlier are the result of an economic system that we have built earnestly through various development programs and policies. The economy we wish to create is a national economy that provides us with an equitable distribution of development, adequate economic growth and

solid stability. This Development Trilogy mandated by the Broad Guidelines of State Policy has proven its accuracy as a guide for our economic growth and development. We will firmly abide by these guidelines in the coming years. Everything must remain based on the nation's philosophy and state basic principle, namely *Pancasila*. It is precisely this type of economy that we are building, in stages, and with planning.

The present form of the economy is a manifestation of our nation's effort to carry out development. It is not the result of an overnight job, but a result of our nation's long journey…on the basis of our own experience in putting *Pancasila* into practice. It is the manifestation of the strategic decisions we have [made] in the course of our development. In our future journey, our economic system will certainly undergo constant reforms, constant developments and constant improvement, in line with the demands of the times… In order to have a deeper understanding of this, I would like to ask you all to reflect on our nation's journey and experience, and on the strategic decisions we made during the journey that contributed to the economy [of today].

To overcome the economic stagnation and deterioration that we experienced a quarter of a century ago, we made strategic decisions about basic management and the rules of the game in our economy… We decided to overhaul our economy, [changing it] from a regulation-laden economy to an economy that gives more scope for [private] initiative, without neglecting the role of the state in providing guidance to the economy. Nowadays, a number of countries are changing their economic system from centralised planning to a more market-oriented economy. As far as we are concerned, we made these changes almost a quarter of a century ago… We had to make institutional changes, changes in the pattern of thinking, and other adjustments. The problem was quite serious because, at that time, we had to overcome an extremely disastrous inflation rate, a stagnant economy, and interrupted contacts with the outside world. Step-by-step, we had to put things in order…

The transition to this new policy certainly was not devoid of obstacles, uncertainty and risks. However, we carried it out consistently, because we were confident that we were on the right track. We are relieved that, in the end, all of this has brought results, and gradually the economy has become normal again… Policies to balance the budget, prudent monetary control and a free foreign exchange system have been the basis of economic management in our country [to this day]. These are the policies that have saved us from difficult and turbulent times…

In the 1970s we laid solid foundations for industrial development by building industries that produce the basic needs of the people, that sustain the agricultural sector, and that process available natural resources. We also started to build industries that produce machinery and technologically-advanced industries. In the 1980s…domestic industries were spurred to corner the export market… All of this has led us to the present stage of industrialisation. In brief, our industry has started more rapid development towards the take-off stage.

Honourable House, the 1980s was a period filled with challenges. The serious global recession, the continued drop in oil prices and the fluctuating exchange rate of major currencies dealt severe blows to our economy. To safeguard our development we had to adopt fundamental adjustment measures. The drop in foreign exchange earnings from oil/ gas exports had to be compensated by an all-out effort to boost non-oil/gas exports. The declining role of oil/gas resources in state revenues had to be compensated by a serious endeavour to raise tax revenues. Meanwhile, in order to increase the role of business in development, increased financial sources from the public had to be generated, developed and mobilised by domestic financial institutions.

Since 1983 we have adopted a series of measures aimed at reaching these goals. Sometimes, the policies we adopted were hard and bitter to swallow. But we can now enjoy some of the results: our non-oil/gas foreign exchange earnings have increased rapidly, domestic revenues from taxes have risen substantially, and the mobilisation of public funds by banks have multiplied many times over. We succeeded in reducing our economic dependence on oil. Our economic structure has become more balanced and stable…

Fellow countrymen, we are aware that we have not yet solved various problems once and for all. We are also aware that every step forward is accompanied by new problems. A higher development rate actually presents new hopes, new demands and new aspirations. We have succeeded in reducing the number of our poor people. As I mentioned in the State Address before this Honourable House last year, in the 11-year period from 1976 to 1987 no less than twenty-four million of our nationals have been able to…free themselves from poverty. Despite this very substantial decline, the number of poor…remains very large, totalling about thirty million people. For this reason, therefore, we must continue to work harder.

We are also aware that the equitable distribution of development contains many facets… There are three important elements in equitable distribution aimed at creating social justice: first, the creation of wider opportunities in an even and fair manner; second, an increasingly even distribution of the ability to seize opportunities; and third, an increasingly deep sense of solidarity amongst all segments of society. This is the essence of the Economic Democracy we wish to develop… All three must become firm parts of our economic system.

As to the first element, namely the more even distribution of opportunities, we accomplish this by deregulation and de-bureau cratisation. Deregulation and de-bureaucratisation are precisely aimed at awakening the initiative, creativity and participation of the public in development. The measures of deregulation and de-bureaucratisation are part of our major endeavour to conduct institutional reform and innovation with a view to having greater ability to address ever rising development demands. The measures of deregulation and de-bureaucratisation are designed to put the…state in its most appropriate place for development. They are certainly not measures to abolish the role of the state. It is definitely not a step towards liberalism. The role of the state remains very important in

providing guidance and encouragement to people's initiative and creativity for achieving development goals. This is precisely the reason why our development is implemented through planning. What is important here is not the extent of state involvement but, on the contrary, the quality of such involvement. What is important is not the number of sectors regulated, but whether the state can really provide guidance and encourage the initiative, creativity and participation of the public in sectors that must be regulated and are strategic in nature.

The second element, namely the more [evenly distributed] ability to seize opportunities, we have accomplished by improving the quality of the Indonesian [people]… This is precisely the reason we have continually been trying to carry out programs in education, health, nutrition, clean water, family planning and so forth. These programs are aimed at simultaneously abolishing poverty…

The third element, namely increasingly strong solidarity, is being developed through various means. Some important efforts include the development of harmonious linkages between various economic agents and economic activities, between the big and the small, between the strong and the weak. The 'Foster Parent' Programme, the Small-holder Nucleus Estate Programme and the transfer of shares to cooperatives are all part of this endeavour. Fundamentally speaking, we are trying to accomplish this by consolidating the practical application and perception of *Pancasila* by all economic agents.

These are all endeavours that we must continue in order to consolidate the equitable distribution of development gains. We have laid the foundations through the various development programs and policies that we have been implementing. Our task now is to continually intensify, expand and perfect these endeavours… With an economic system and structure which is solid and sensitive to change, and with the right policies implemented consistently, we must not have any doubt that we are on the right path towards the creation of a just and prosperous society founded on *Pancasila*.

NOTES

1 Soehoed (1982) presents a detailed account of his programme for developing basic industries, and Robison (1986:222–223) summarises its impact. The minister also outlined detailed plans for upgrading small-scale industries, a programme later known as the 'Foster Parent scheme', *program bapak angkat* (Soehoed 1979b).

2 Soeharto had a lingering admiration for the large-scale industrial projects begun by Pertamina, which has an important bearing on continued state funding for Habibie's projects (Sacerdoti 1980; Nasir 1987; Hill 1988). Schwarz (1994:85–97) provides a detailed account of Habibie's antipathy to the policies of technocrats, and his reliance upon the President to realise his development goals.

3 This 'Team 10', so-called because of its role in implementing Presidential Decree no. 10, has fostered the expansion of a range of *pribumi* business groups (Schwarz 1994:117–119). The challenge to the Armed Forces by Sudharmono, who in 1983

became chairman of the ruling party, Golkar, and in 1988 Vice-President, is described by Vatikiotis (1993:84–88).

4 PT Nurtanio is the state corporation pioneered by Habibie in the 1980s to produce aeroplanes and helicopters (Schwarz 1994:87–89). Renamed PT IPTN *(Industri Pesawat Terbang Nusantara),* it remains a common target for criticism by economic liberals. All four writers in this chapter mention it favourably, however. Kratakau Steel is the state-owned steel mill that was begun in the early 1960s, collapsed in the mid-1960s, was resuscitated in the 1970s, but only began to produce significantly after Habibie took control with strong state backing in the late 1980s.

5 Cibaduyut is an area near Bandung in which cottage industries flourish. It is well-known for its production of leather products, garments and footwear.

6 The word used here is *mengarahkan,* 'to give instructions, to guide, to direct', a term frequently employed by state officials. Other terms used here to refer to the private sector are *pembinaan,* 'improvement, upgrading, nurturing', and *pengaturan,* 'organising, regulating', both of which also imply conscious state direction.

7 This a reference to the foundation of Budi Utomo, 'High Endeavour', an indigenous organisation to promote education and build national identity. In official parlance, this is considered the birth of Indonesian nationalism.

8 The Agency for Management of Strategic Industries, *Badan Pengelolaaan Industri Strategis* (BPIS), is an umbrella organisation for the industries controlled by Habibie, initially aerospace, shipping and aircraft. From the outset, however, Habibie intended that it would also incorporate other industries.

8
The revival of the populist critique

INTRODUCTION

The populist critique of New Order economic policy discussed in Chapter 5 has persisted into the 1980s and 1990s. In fact, we suggest that since the late 1980s there has been a strengthening of this challenge, especially amongst non-state critics, as a response to what is seen by some to be the negative consequences of the gradual economic liberalisation initiated by the government earlier in the decade. Statistnationalism has been attacked because of the opportunities for corruption and the abuse of state power which it presents. Populist critics of New Order economic policy also continue to emphasise the undesirable consequences of an unconstrained market—fearing that economic liberalisation would merely expose the poorer sections of society to greater exploitation. As we have seen in Chapter 6, the fall of international oil prices—which forced the state to retreat from many economic activities it previously dominated—resulted in the strengthening of the position of liberal advocates of the free market. Echoing the populist critique of the 1970s, they emphasise the state's responsibility to protect the weak and to ensure that development results in the improvement of their welfare. Not surprisingly, a constant target of their attack is the gap between rich and poor in contemporary Indonesian society.

As mentioned in Chapter 5, populist critics of New Order economic policy have generally comprised NGO and student activists, in addition to a number of prominent intellectuals and academics. In other words, they have essentially represented social groups at the very fringe of the political system, devoid of any real institutional power base. Therefore, their capacity to influence state policy has, on the whole, been rather limited, although some representatives of this populist stream have maintained quite a high degree of public prominence. Indeed, the themes raised by these critics continue to help define the agenda of the public debate on economic policy, well into the 1990s, in spite of the fact that Indonesia has had to respond to pressures exerted by the world economy to enhance the efficiency and competitiveness of its own economy. Though perhaps less fashionable than in the past, the populist critique is likely to be assured of continuing relevance to these debates as long as there is considerable acceptance

of one particular notion: that the often technocratically-stated goals of economic development need to be assessed on the basis of a more fundamental set of historically-rooted values and ideals. Indeed, as was shown in Chapter 5, populist critics of the New Order have found ideological legitimacy in the *Pancasila* and 1945 Constitution. Needless to say, both were the product of a period of revolutionary upheaval, which inspired the rise of an egalitarian ethos, rather than the product of economic globalisation.

The first selection presented in this chapter is by **T.Mulya Lubis**, one of Indonesia's most prominent human rights activists. A lawyer by profession and a former chairman of the respected Indonesian Legal Aid Foundation (YLBHI), Lubis's piece is a fine example of populist-style criticism integrated into mainstream public discourse (it was published in the respected and popular daily, *Kompas*). The author's main objective is to argue for the incorporation of human rights considerations into the economic development agenda, while stressing that they are not contradictory to the more strictly economic objectives of development. Lubis goes on to give examples of how the poor have had to make sacrifices for development, citing celebrated cases of the forced displacement of the rural poor for the sake of particular development projects. In the process, Lubis skilfully makes use of symbols of nationhood and patriotism which demonstrate the link between his arguments and what he sees as the basic ideals of the Indonesian nation. Thus, he argues that the meaning of national independence has been lost for Indonesia's poor and destitute.

The next selection is by the late **Soedjatmoko**, one of contemporary Indonesia's most respected and renowned intellectual figures. As mentioned in Chapter 2, he was a former member of the intelligentsia-based Indonesian Socialist Party, who later aligned himself with the New Order in its early period, serving as Indonesian ambassador to Washington and an adviser to BAPPENAS. He also enjoyed an international reputation as an academic, and at one time served as rector of the United Nations University in Tokyo. Increasingly critical of the New Order in his later years, he became well known as an advocate of the basic needs approach to economic development[1] and later environmentalism. In the years prior to his death in 1989, Soedjatmoko's earlier concerns were fused into the concept of 'sustainable development', which he ardently promoted in public debates. In part, this served the purpose of continuing a basic critique of the development path pursued by the New Order, which he saw as lacking in concern about its environmental and social cost.

The selection by Soedjatmoko presented here is from a paper originally presented at a series of workshops on sustainable development organised in 1989 by the Society for Political and Economic Studies (SPES), a private research institute in Jakarta, which was attended by some forty or fifty of Indonesia's leading intellectuals. Here he elaborates on some of the thorniest development issues in Indonesia—overpopulation, environmental degradation, regional disparity, and the concentration of economic and political power. More fundamentally, he dismisses the economic development model carried out by

'Third World' countries (perhaps best read as a euphemism for Indonesia) as not viable in the long run because they inevitably result in an ecological and social break-down. His piece is a good example of how, by the late 1980s and early 1990s, environmental issues had been integrated into the populist critique, which had been traditionally more concerned with the effects of the concentration of economic wealth and political power.

In spite of the prominence of such critics as Lubis and Soedjatmoko, the most scathing attack on New Order economic policy in the 1980s and 1990s, perhaps not surprisingly, has been provided by a new generation of radical student critics. Significantly, the political socialisation of such students took place at a time when they were, as a result of state repression, more marginalised than ever from official politics.[2] Selections by two such radical student figures are presented in this chapter. These selections repeat some of the themes of the student White Book of 1978 (see Chapter 5). Influenced by dependency-style analysis, however, they tend to be more concerned with identifying the structural roots of Indonesian social and economic problems than their predecessors. Thus, to these student critics, corruption, disparities between rich and poor—as well as the lack of protection of basic political rights—are the results of a rapacious form of capitalism that they allege the New Order has presided over, rather than merely of bad government.

The next selection in this chapter is by **Enin Supriyanto,** an ITB student who was imprisoned for his part in what is known as the '5 August 1989 Affair', in which students demonstrated against and hurled abuse during a visit by the Minister of the Interior, Rudini. In this piece Supriyanto argues that the suffering of the poor is the direct result of a developmentalism whose overriding objective is the attainment of economic growth. Significantly, he sees the economic liberalisation trends of the 1980s as the result of pressure on the Indonesian government by such international organisations as the World Bank and IGGI. Demonstrating the continuing influence of dependency-style analysis, for Supriyanto this demonstrates the New Order's inability to confront the power of foreign capital In many ways typifying the crux of much of the contemporary radical student critique, he also argues that New Order economic policy has mainly served the interests of large economic conglomerations whose main components are Chinese, crony and bureaucratic capitalists. Here he is obviously targeting the increasingly influential group of capitalists who have benefited from access to state power, including the relatives of state officials. Since the 1970s many such individuals have come to command their own sizeable business operations. More fundamentally, however, Supriyanto brings up the subject of the disjuncture between the stated aims of economic policy and the basic ideals and values of the Pancasila and the 1945 Constitution, in the full knowledge that they are usually presented by state officials as being in accordance with each other.

The last, and perhaps most emotive, selection is by **Bambang Beathor Suryadi,** a student leader who was imprisoned in 1989 for participating in a

student march on Parliament, protesting at a rise of electricity rates. He is a member of 'Yayasan PIJAR' (Information Centre and Network for Reform Action), a well-known student organisation whose members have recently been the subject of much state repression.[3] In the selection presented here, Suryadi concentrates on two main issues: Indonesia's growing debt problem and what he sees as the depletion of Indonesia's forests for the sake of the interests of state bureaucrats and privileged businessmen. In strong language, he argues that foreign loans have been misappropriated by state officials and their associates, and that such loans have actually been the main instrument by which the New Order has sustained itself. He suggests that the depredations of the New Order are sustained by external powers. Moreover, writing at a time of increasing awareness of Indonesia's growing debt, he argues that foreign loans have supported policies that cause impoverishment and environmental degradation rather than improved welfare. He has particularly scathing remarks for the practice of allocating large chunks of Indonesia's forests to military officials and Chinese businessmen.

It is noteworthy that the contributors to this chapter have backgrounds that are extremely diverse. Lubis is a veteran NGO figure who first made his mark as a human rights lawyer in the 1970s. Unlike Soedjatmoko, who was a member of the PSI and briefly aligned himself with the New Order, Lubis has had no formal political affiliation. His political socialisation, however, would have taken place among the group of intellectuals and students that played a major role in toppling the Old Order in the 1960s, but who soon became disenchanted with the New Order as it began to display its own authoritarian streak.

As pointed out earlier, the political socialisation of the two students represented in this chapter did not take place within a political grouping deemed 'legitimate' in New Order terms. Importantly, by the time they emerged on to the scene in the 1980s all of the old institutions of student politics had been tamed. The political sensibilities and values of this generation of activists were shaped by their experience in the array of informal student groups that proliferated in Indonesia in the 1980s as a way of escaping the rigid control exerted by the state on formal student politics.[4] Suryadi, moreover, exemplifies the way in which the process of political radicalisation develops as experience in informal student groups is combined with experience in organising or participating in mass actions of protest. Significantly, in recent times, some of this action has taken place in concert with striking urban workers (Hadiz 1994), as well as displaced rural peasants.

The contributors to this chapter range from a highly respected former government adviser to student radicals who make uncompromising attacks on New Order economic policy, demonstrating the broad appeal that populist ideas continue to have across the political spectrum. This is perhaps not surprising, as there may not be an issue which is more fundamental to the Indonesian debate on economic policy than the alleged disjuncture between the technocratic goals of development and the demands of Indonesia's almost mythical egalitarian political

past. As further chapters will make clear, defenders of New Order economic policy have not always had adequate responses to defuse this highly politically sensitive issue.

Vedi R.Hadiz

T.Mulya Lubis (1989)
WHY I LOVE THIS COUNTRY: REMINISCING ABOUT INDEPENDENCE

From 'Sebuah Renungan tentang Kemerdekaan, Mengapa Saya Mencintai Negeri Ini', *Kompas* 11–12 August.

I cannot fully agree with those who say that nationhood and citizenship are irrelevant I accept that state boundaries are no longer a barrier and are less important for people concerned about the violation of human rights. The classic doctrine of non-intervention is no longer applicable, so as human beings and *as Indonesians* we must express our sympathy for those recently killed, tortured and repressed in China…[But] for Indonesians the status of citizen is still important, and the concept of nationhood even more so. Citizenship may occasionally involve bitterness and misery for those pushed aside or sacrificed by the state, but this does not dilute their sense of citizenship or make them want to emigrate…both a concept and a reality, Indonesia is undoubtedly very important for all Indonesians, regardless of ethnic group or religion. There exists a kind of spiritual bond which is difficult to explain, but felt very strongly. It is a deep-rooted emotion, something of greatness and beauty without equal. And also of pride…

I have often sought the answer for the success of this nation in preserving its pluralism despite efforts at uniformity, and amidst the entry of the outside forces that have accompanied development. I also often wonder how it is that everyone has been willing to use Malay as the national language. But this is not something that can be explained. What is certain is that this fact is now so well-established that it no longer needs to be questioned. The important thing is that we continue to survive as a nation.

I am suddenly reminded of the temple of Borobudur, which stands with splendour, elegance and grandeur. For centuries it has been historical witness to the journey of this nation… Indonesia seems to be the incarnation of the proud life-spirit of Borobudur. Unfortunately, amidst this legitimate pride there are problems in the vicinity of Borobudur itself, a mountain of human problems involving all sorts of anxieties and tensions. Several years ago many people sheltering in the shadow of Borobudur's greatness were pushed off their land—a forced removal carried out in the name of development. Much was clearly sacrificed for its construction, and, clearly, economic development also demands sacrifices. Unfortunately, these sacrifices are not spread evenly, for it is always

the powerless who are the victims. I recall the faces of those forced to shift from their land, but who still looked with wonder and pride at Borobudur, at Indonesia. Their wounded spirits are overcome by their love, something that is hard to explain—because it cannot be explained.

For me this love has two aspects: love for Borobudur, and love for those victimised by Borobudur. My love also extends to the people of Kedung Ombo who resolutely defended their plots of land from the unjust construction of a dam. It is not that I disapprove of dams, but I simply believe that their construction must not take place by sacrificing the basic rights of the population, namely the right to earn a livelihood…

But Kedung Ombo is just one of the many misfortunes suffered by people in our country[5]… Real estate development, plantations and pulp paper factories are symbols of economic development, and people should not oppose them. But why do these symbols always disturb us and make us suffer? What makes these symbols so removed from the simplicity of the people? It is, of course, not difficult to guess the answer: they represent the interests of a small group of business people, and do not nourish the common people. Worse, these symbols might represent the undemocratic and unjust abandonment of the people.

Even more tragic was the expulsion from their land of the rural labourers of Cimacan, Puncak, West Java for construction of a golf course[6]… They could not emigrate—and would not want to emigrate. Neither could they receive the sympathy of international public opinion because their expulsion did not draw the attention of media syndicates or international television networks… Human rights activists…would not know of the case and could not do anything about it. Globalisation is undeniably occurring, but has-not yet had an impact on questions of human rights.

If I reject the opinion of a number of human rights activists who say that citizenship and country are unimportant, it is because that opinion is absolutely incorrect. I was saddened when the rural labourers of Cimacan escaped the attention of human rights activists who are too busy in international forums. But the labourers of Cimacan have the same legitimate right to be defended as do the Palestinians with their *intifada,* the blacks of South Africa or the boatpeople from Vietnam.

The sad story of the rural labourers of Cimacan should not have taken place, particularly in a country that is renowned for its friendliness and abundant wealth. But it is precisely this friendliness which has become a boomerang, because many people, projects and companies have come and abused this friendliness. As a result, those who have such a friendly attitude often become its victims. For me, what happened in Cimacan is the logical consequence of the friendly attitude which characterises most of our people. If we were not friendly, then Coca-Cola, Kentucky Fried Chicken and Honda would certainly not be so often in our front-yard.

Another word for this friendliness is tolerance. The peoples of Asia are very proud of their tolerant attitudes, but we must also admit that, honestly, tolerance

can also cause a form of intolerance, for it permits activities that are actually harmful to the people and nation. A greater good may be sacrificed. There are many examples of this: our tolerance towards technological sophistication has led companies to dismiss workers… In the case of Cimacan, we have seen how tolerance towards golf allowed the rise of intolerance towards the rural workforce. If we extend the argument further, then we can say that corruption is an unavoidable outcome of our tolerance of extravagant lifestyles, of consumerism…

If we admit [that this is wrong], the question for us is, can't all of this be redirected to guarantee the welfare of the people and bring them closer to economic, political and legal resources? Can't this all become the means to realise social justice such as that proclaimed in the 1945 Constitution? This is the key issue, for what happened to the rural labourers of Cimacan is an historical stain that tarnishes the ideals of independence…

It is ironic. We read that our economic development has been a success because fewer people live in poverty; only about 30 million. If correct, this is certainly not a small figure. We have a right to be upset. In fact, there are many in Cimacan, Kedung Ombo, Kacapiring, Pradah Kalikendal village, Aceh, and in the slums and intersections of Jakarta…I feel a pain in my heart. I see that the word 'independence' is beginning to lose its meaning for those who are weak and destitute… In the end, it is our task to give substantive meaning to the word, independence.

Soedjatmoko (1992)
A POLITICAL FORMAT FOR SUSTAINABLE DEVELOPMENT

This extract is taken from a position paper for a seminar on sustainable development held by the Jakarta-based 'Society for Political and Economic Studies' (SPES), later published in the volume *Pembangman Berkelanjutan: Mencari Format Politik* (Sustainable Development: Searching for a Political Format), Jakarta: Gramedia and Yayasan SPES, 1992.

It is no secret that there has been much criticism of the development implemented in the Third World over the last few decades—which has generally meant the application of models offered by the West. These criticisms have demanded a sincere and comprehensive rethinking [of the development process], ranging from reformist ideas to more radical notions. Amongst the various shortcomings identified in these critiques, some will be found in any Third World country, for these models generally ignore rural development, leading, in turn, to insurmountable problems in the cities, the erosion of the natural resource base, no clear policies on how to take advantage of population growth, a failure

to create a domestic market, a decline in social sustainability because of the inability to overcome economic dualism, and a tardiness in formulating ideas and policies on developing human resources.

Unless these tendencies can be reversed, all these shortcomings will eventually cause development to become unsustainable. With regard, for example, to urban problems, a too rapid rate of urbanisation has caused many problems in the large cities, casting doubt on whether they can ever be solved merely through planning revisions or improved city management. And is it possible for an expanding population to be absorbed by a more productive non-agricultural sector, rather than simply 'throwing' people into the informal sector—which has until now largely functioned to cushion the tensions caused by unemployment? Concerning the domestic market, is it possible to reverse the direction of economic development away from its export orientation towards the creation of a domestic market?[7] And we need not repeat once more how pressing it is that we prevent our natural resource base from being destroyed, and to take account of the [low] carrying capacity of agricultural areas.

The carrying capacity of the natural resource [base] and the environment will, in turn, influence our ideas and policies on what is an acceptable rate of growth. Should we choose a high rate of growth which will be accompanied by a high rate of [environmental] depreciation, or should we determine the carrying capacity of the natural resource [base] and environment before setting a tolerable rate of growth?

Some observations on Indonesia

The problem of Java's overpopulation is not an isolated case, but is clearly associated with the concentration of progress and development on Java, including the concentration of communications… What we have had up to now is a situation in which communication between islands is carried out centrally, through Jakarta. Similarly, we can state that education, infrastructure, capital and even prosperity is concentrated on Java. If Dr Mubyarto's data are accurate, until 1970 the average prosperity of Java was 35 per cent below that of the Outer Islands, but in 1987 prosperity in Java was 25 per cent higher…with Lampung as the poorest area… The rate of population growth of Lampung, which virtually has no non-agricultural sector, is higher than the rate of population growth of Jakarta, which is filled by the services sector. The eruption of the Lampung case recently is a social and economic problem which should have been long anticipated…[8]

Concerning Java's agriculture, it is too much to expect that Java can still be the major producer of rice in the next 20–30 years, mainly because of the declining water resources that can be used to irrigate paddy-fields…

On the domestic market, new problems can now be seen with policies which are protectionist and semi-protectionist in nature… The decline in government revenues from the oil industry has forced the government to stimulate the private

sector through policies of deregulation. The dilemma is how to combine the desire to deregulate with the need for protection to preserve domestic industry. Concerning unemployment, it is noteworthy that nearly two million people enter the workforce every year in Indonesia. Although every model of development should be able to deal with [the unemployment] problem, it is clear that this issue is of particular importance to Indonesia.

Whatever may happen, it is unavoidable that economic development will be accompanied by political development. In every country that aspires to democracy, a general measure is whether people's participation in political decision-making has risen or fallen. Here, one of the key indicators is the increase in the role of parliament… With no cynicism intended, it should be stated that the output of the legislators of our parliament is one of the lowest amongst developing countries…

We must look at all possibilities when identifying an appropriate model for sustainable development… For example, we might choose the limited carrying capacity of Java as our point of departure, and then look at its implications for Indonesian development. Discussion might also begin with observations on whether economic dualism is increasing or decreasing, and on its impact on social sustainability.

Enin Supriyanto (1989)
GROWTH-ORIENTED DEVELOPMENT STRATEGIES AND AUTHORITARIANISM

From *Bertarung Demi Demokrasi* (Fighting for the Sake of Democracy), a collection of defence pleas published by the 'Committee to Revitalise Student Activities', Forum of Student Leaders, Bandung Institute of Technology.

The completely anti-democratic and authoritarian political engineering practised by the New Order regime is a direct manifestation of the development model that it has followed. In keeping with this political engineering, ever since it was established the New Order has launched an economic development strategy that pursues nothing other than economic growth. This was actually undertaken to give New Order powerholders greater political legitimacy; once political forces were brought under control a transnational development strategy was launched. Development came to depend very heavily on the international economic structure to provide the necessary capital formation. The first three five-year development plans designed by BAPPENAS clearly indicate this dependence: it could be seen in the size of foreign borrowings and aid, which were made the primary source of capital. Consequently, the domestic market had to be opened up [to allow] the entry of foreign capital into industry, production and other sectors. The direct results of this dependence…has been the emergence of social

groups enjoying a privileged and exclusive economic status, of an overwhelming reliance on multinational corporations, and of the centralisation of economic and political power within the ruling elite. The situation did not change when planning was later transferred to the State Secretariat.[9]

In accounting for the disarray and the many inequities caused by the above development strategy, [one] characteristic feature influencing socio-economic, socio-political and socio-cultural processes has been…the 'ism' of developmentalism. What is meant by this is development in which all efforts are made to chase economic growth. To achieve this, industry was revived by involving foreign capital, making possible large-scale investments in industry. Economic liberalisation became a precondition imposed by those who provided aid. Essentially, the aid thus obtained from the IMF, IGGI and World Bank during the New Order period has been a subtle form of foreign capitalist intervention in the Indonesian economy…

This orientation towards growth soon reinforced the inequitable relationship between the modern and traditional sectors and between the formal and informal sectors, as well as polarising the village from the city, the rich from the poor. Legitimised theoretically by W.W. Rostow's theory of growth and his concept of a stage of 'take-off', Indonesia's economic growth rate has certainly increased… in terms of the size of the GNP. However, this pattern of dependent capitalistic relations has also produced inequities in the distribution of income. The poorest 40 per cent of the Indonesian people currently have only an 8 per cent share of national income. The growth strategy has resulted in a process of impoverisation that is structural in nature… general, about 60 per cent of the national income is obtained by the upper 20 per cent of the population…[10]

In its efforts to chase growth, the state (read 'government') has also 'played the game' of an institution that accumulates capital. We can see that the powerholders have done this by inserting the interests of particular social groups into economic mechanisms. One clear feature has been the inclusion of military officers in the bureaucracy and in the economy. State corporations [BUMN] hold monopolies in various sectors, guaranteeing that this social group would become both a political and an economic elite. It has been through these state corporations that monopolistic concessions for private businesses emerged—in order to accumulate capital.

To [comprehend] the economic relationships between civil and military bureaucrats and private business, we need to draw a distinction between *non-pribumi* businesses (particularly those of [ethnic] Chinese) and *pribumi* businesses (particularly those owned by relatives of state officials). For powerholders, the use of Chinese social groups in the economic growth strategy has had two important aspects, one economic and one political. Economically, they were ready as partners to provide capital, because ever since colonial times they have possessed an infrastructure of distributional networks; giving them various concessions under the exclusive control of state corporations directly profited these corporations. From the political point of view, they became very

dependent on the political 'patronage' of powerholders in the New Order, so there was no need to fear that they might harbour political ambitions. At the same time, it was considered inappropriate to reveal the expansion of state corporations because it would also make it patently clear the way in which the state apparatus controls our economy. This cooperation thus prevented the general public from gaining this impression.

The entry of the relatives of state officials into economic activities can also be seen in the same light—although it needs to be stressed that, economically, the involvement of this group in the economy was mostly based on the attempt to keep economic power concentrated in the bureaucracy. From the political point of view, there is no need to fear that this group would threaten the interests of the powerholders, because they have benefited greatly from the existing system.

If we refer back to Article 33 of the 1945 Constitution, which states that the economy should be organised on the basis of the 'family principle', in the sense that every citizen should have equal economic rights and opportunities, then it is clear that there has been a distortion in the way that the 'family principle' has been interpreted under the New Order. So we must ask, who is benefiting from the process of development overall? Isn't our economy today now dominated by [certain] *families*? Is this what is meant by the 'family principle'?…

In brief, we can say that the growth strategy pursued by the rulers of the New Order has deliberately resulted in the domination of conglomerates from only one particular social group. It is this group which is termed 'crony capitalists' (represented by the Chinese) and bureaucrat-capitalists (represented by relatives of officials)—the ones who have benefited most from New Order development… Meanwhile, the vast majority of our people continued to be buried in poverty and need. As I have suggested, the growth-oriented strategy has been directly responsible for many disparities in many aspects of social life.

Bambang Beathor Suryadi (1991)
SOEHARTO'S ILLUSION: BUILDING WITH DEBT

Excerpts from Chapter 12 of B.B.Suryadi, *Peluru Bersimbah Darah* (Bullets Splattered with Blood), Jakarta: Ikatan Keluarga Mahasiswa Jakarta.

In the run-up to the March 1988 general meeting of the People's Consultative Assembly (MPR), Soeharto gave the Indonesian people an explanation of our real foreign debt situation. This explanation was part of an attempt to maintain his position as president, to perpetuate his whole regime, and to keep the wheels of the capitalist-bureaucrat economy in motion… 'We pay a low interest rate of between 3 and 3.5 per cent, and sometimes only 1.5 per cent such as with the loans from Italy. The loan will only be repaid after seven years.' Debt is certainly not unusual in financing state budgets. But the problem is debt has become the

basis for funding development. And now we cannot escape our dependence on debt. This is not only humiliating, but it also endangers our national resilience. The nation has been pawned by Soeharto to secure the perpetuation of his power. Some of the debt also goes into the pockets of Soeharto's children. Much of the debt is used by Soeharto and his family's companies to pull in departmental projects. And it is with this debt that Soeharto's repression and tyranny has persisted. The World Bank and IGGI should be held responsible for the repression, exploitation and cruelty of the regime that they have financed during these years…

At the same opportunity, Soeharto proudly explained that by June 1987 the [principal of] Indonesian government debts had reached more than US$34.6 billion. Rp 6.8 trillion has been budgeted for the 1987/88 financial year as repayments and interest on this foreign debt. Rp 10.6 trillion has been budgeted for debt repayments and interest for 1988/ 89. Who really benefits from the existence of this debt?

First, of course, is Soeharto and his cronies. Using these debts, they have been provided with opportunities to establish many companies and conglomerates. All they have to do is collect the profits they get from recycling funds and interest on deposits in domestic and overseas banks. The people are not involved at all in approving these loans. As usual, it is the people who have to bear the consequences.

Second, those who enjoy the benefits of this creditor-debtor relationship are the donors themselves…The most appropriate term for overseas debt is 'from foreigners for foreigners'. It's not that donor countries give us loans. The projects financed by these debts need components, machinery and foreign expertise. These projects really provide work opportunities for foreign workers. The funds used for this can reach 70 per cent of the value of the whole project. The final outcome of all these debts is that Indonesia only gets the junk…

In the period from 1970 to 1986 the overall flow of net foreign capital into Indonesia was negative. This means that it is Indonesia that is providing aid, not the donor countries. Even though we have received many loans (capital inflow), in reality it is the resources of Indonesia which are being depleted, and Indonesia which has become an exporter of capital. The profits that should be in our hands are given to our creditors. We can see with our own eyes other forms of damage such as pollution, deforestation, environmental damage and the decline in environmental standards. Is this what is meant by loans that will deliver prosperity and welfare to the people?

When oil prices soared in 1974, 1979, 1980 and 1981 the profits remained in foreign hands. Aren't these oil companies foreign investors? The profits these investors obtained are taken overseas. By 1985 the profits of foreign oil companies from petroleum were double that obtained in 1979. Some of these profits are used by foreign companies to take action to influence the market with a programme of import substitution industries given tariff and non-tariff protection. These import substitution industries are very exploitative because the

components and technology are imported from overseas. Indonesia's contribution is only to provide cheap labour, on top of which workers have no right to strike. It's clear that Soeharto's deception must be stopped before the whole nation is ensnared in the trap of foreign debt. Debt which has more disadvantages than benefits.

So how will Soeharto pay off this ever-increasing debt? Long ago, on 9 June 1971, five years after he came to power, he drew up large-scale plans for mineral exploration and the sale of forests in the outer islands. He made this statement in the 'Klewer' market in Solo. Since making this statement in the Klewer market, he has arrogantly assumed we will be able to pay off this debt.

What is the reality today? Very worrying! Our forests have been heavily exploited by giving forestry concessions of hundreds of thousands of hectares to military companies and foundations, Chinese businessmen, and foreign businesses. According to Ben Anderson, military business groups have shown great skill in acquiring forestry concessions (HPH). The companies that have HPH concessions have generally been established with a capital outlay of no more than Rp 3 million. Only after they join up with Chinese or foreign business groups, that capital becomes Rp 100 million. They cut down the forests with no knowledge of forest regeneration…

Forest exploitation has continued to increase in keeping with Soeharto's scenario. According to the Department of Forestry, HPH licences have been given to 562 business groups with a total area of over sixty million hectares. And it turns out that only four per cent of these HPH licensees look after the forest well.[a] And Imam Churmen, a member of the Fourth Parliamentary Commission that handles forestry issues, has stated that all these companies are actually controlled by fifty conglomerates.[b]

Economic activity in the forestry sector has for years made wood exports the mainstay of Indonesia's non-oil exports. Contributing an average of no less than eleven per cent of the total state budget (APBN), it is this which provides the capital for the repayment of the ever-increasing foreign debt mentioned by Soeharto in the Kluwer market.

It is of course the people and low-level staff who suffer most because Soeharto is so keen on debt. Tragically, in 1988 the Indonesian people had to sacrifice greatly to support the maintenance of Soeharto's rule. Indonesia gained new debts of US$7.4 billion. At the same time, we all had to pay back $8.5 billion, consisting of $5.6 billion of the principal and $2.9 billion in interest. That means minus $1.1 billion, and that foreign capital has flowed back to the advanced

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[a] See *Pos Kota* 26 February 1990, p. 12.

[b] These include the Nusamba Group owned by Bob Hasan and Sigit H.Soeharto, the Pasopati Group owned by Bob Hasan, the Bimantara Group owned by Bambang Trihatmodjo Soeharto, and many others. See *Editor,* 1988.

countries from a developing country. Soeharto's style is to 'dig holes to fill them up again' [a futile exercise, eds].

Our foreign debt continues to blow out and now no-one is willing to guarantee that it will quickly be repaid. It is a big lie when Soeharto continues to sell the idea that we need loans to stimulate development. In fact, our development is being obstructed because our debt continues to balloon. Soeharto can only act like an obedient child, sucking up to international financial institutions and donor countries. Soeharto prefers to be considered a good boy by the lender countries rather than by his own people.

NOTES

1 See Chapter 9 in Soedjatmoko (1983).
2 In response to the student activism of the 1970s, which had culminated in huge protests against the government in 1974 and 1978, policies were introduced in the late 1970s and early 1980s to tame student bodies. The consequence was that in the 1980s politically-active students began forming their own groups and organisations outside the official, campus-based, bodies (Aspinall 1994).
3 *Pijar* operations have been constantly monitored, leading to some arrests. In 1994, for example, another *Pijar* activist, Nuku Sulaiman, was imprisoned for defaming the President.
4 See Aspinall (1994) for a discussion of the 1980s and 1990s student movement.
5 Here Lubis mentions the cases of Kalikendal, Badega and Asahan, which involved prolonged disputes in the late 1980s over, respectively, the forced acquisition of land for the development of luxury houses in East Java, of land used for a tea plantation in West Java, and the pollution of traditional fishing waters resulting from a new paper pulp factory in Aceh.
6 Two hundred and thirty families with only traditional ties to the land were required to move from this place near the elite tourist resort of Puncak, West Java. They are said to have been poorly compensated for their land.
7 This is an interesting comment given that the piece was written in the midst of the excitement of the success of Indonesia's switch to an export-led industrialisation strategy based on light manufactured products. The reference here, however, is possibly also to the ISI phase of the 1970s and early 1980s, which was heavily dependent on state revenues from exports in the oil and gas sector.
8 Soedjatmoko is referring to a case in which local peasants were involved in violent clashes with the local military.
9 On the role of the State Secretariat in economic policy-making, see Pangaribuan (1995).
10 The World Bank (1995:220) provides data showing that the 'lowest 20 per cent' of the Indonesian population had a share of 8.7 per cent of 'income or consumption', while the highest 20 per cent had a share of 42.3 per cent.

9
Pribumi-Chinese relations

INTRODUCTION

Relations between indigenous, *pribumi,* Indonesians and ethnic Chinese have always been among the more politically sensitive of issues in modern Indonesia. On the one hand, *pribumis* have long harboured animosity toward what they regard as ethnic Chinese dominance of the Indonesian economy. Indonesian Chinese, on the other hand, have had much cause to be insecure about their position in Indonesian society, as their economic power has generally not been translated into any form of direct political power.

Much of the tension between *pribumi* and ethnic Chinese Indonesians has its roots in the colonial period.[1] Although Chinese settlements had been present before Europeans arrived in the East Indies, the large waves of Chinese immigration only took place after the consolidation of Dutch rule. While many arrived in the Indies to serve as coolies in plantations or to work as cheap labour in mines, by the early twentieth century many Chinese had come to form a commercial 'middle class', placed somewhere in the social hierarchy between that of the Dutch rulers and the native population. Importantly, commercial activities became predominant among the Chinese because they were encouraged by the Dutch to move to the towns and cities, and to leave most agricultural activities to *pribumis.*

Historians like Coppel have noted that Dutch colonial policy tended to reinforce their differences with the *pribumis,* discouraging the Chinese from developing cultural affinities with the majority of the population. This was still the case in 1930, although almost two-thirds of Chinese Indonesians had been born in the islands that comprise present-day Indonesia (Coppel 1983:1). It was colonial policy, for example, to encourage the Chinese to reside in distinct quarters within the major towns and cities, as well as to impose a system whereby they could only travel to other areas with a pass issued by the government. In his classic study of colonial policy, Furnivall (1948) noted the extent to which differences between the Chinese *and pribumis* were codified by law. Under this policy, the whole of the population of the Dutch East Indies came to be divided into three distinct groups: 'Europeans', 'Foreign Orientals'

including the Chinese, and Natives. Each group had different legal rights and privileges, and, as a result of colonial policy, class differences virtually came to mirror existing ethnic divisions.

The prominence of a small Chinese commercial bourgeoisie in certain sections of the economy was already a thorny problem by the first years of independence. In the early 1950s, at the initiative of Sumitro Djojohadikusumo, the PSI-aligned economist and Minister of Industry, the so-called 'Benteng' program was launched to promote the 'indigenisation' of the economy. Active government support was given *to pribumi* business groups in the form of the provision of licences and credit. It was, however, a dismal failure and gave rise to what was popularly known as 'Ali-Baba' relations in which *pribumis* served as fronts to Chinese-controlled businesses. Part of the problem was that the *pribumi* recipients of the Benteng facilities tended not to be established importers, but politically connected individuals who simply sold their licences to Chinese importers (Robison 1986:45).

Much larger and more economically powerful Chinese-owned business groups were to emerge in the New Order as the success of the regime's economic programme may be said to partly lie on the effective utilisation of the resources of the predominantly Chinese business community. The development of a heavily Chinese, stronger, domestic capital-owning class was quick to become a politically-explosive issue, prompting domestic critics of the New Order to accuse it of not only widening the gulf between rich and poor, but of also causing the decline of whatever *pribumi* bourgeoisie existed in the 1950s (see Bratanata, this chapter). A predominantly Chinese and Catholic group linked to the CSIS, a think-tank founded by Ali Moertopo—the top Soeharto aide responsible for the reconstitution of mass organisations and political parties in the early 1970s[2]—was a particular target of criticism. In January 1974 mass demonstrations led by students took place in the streets of Jakarta, ostensibly against foreign domination of the economy,[3] but actually directed against official corruption and nepotism, business links between bureaucrats and entrepreneurs, and the growing power of Chinese business (see *Indonesia Raya,* Chapter 2). Today, groups controlled by such *taipans* as Liem Sioe Liong, Prajogo Pangestu, Eka Tjipta Wijaya, and Bob Hasan are among the most prominent of these Chinese businesses. Importantly, all of them have been popularly perceived as benefiting from state protection and patronage.

Some of this potentially divisive criticism has been defused politically. Though nothing on the scale of Mahathir's 'indigenisation' programme in Malaysia ever emerged in the New Order, there have been some notable official attempts to address the question of disparity of wealth between *pribumi* and Chinese. Perhaps most importantly, the State Secretariat, particularly during the tenure of Sudharmono as Secretary and then Minister in the 1970s and 1980s,[4] became the most active promoter in the 1980s of a new group of *pribumi* client capitalists. It employed the mechanisms of KEPPRES (Presidential Decision) 10 and 14A, which provided preferential treatment to *pribumis* when tendering for

state projects.[5] Later, Bambang Soeharto, son of the President and a major new business figure, suggested that privatised state firms be transferred to *pribumis* in order to help strike a better balance between Chinese and *pribumi* economic power.[6] Soeharto himself directly addressed the problem by, uniquely, suggesting that 'conglomerates'—taken to mainly refer to larger Chinese-owned business groups—transfer 25 per cent of their assets to cooperatives, which as an instrument of the poor, would theoretically, at least, represent the interests of *pribumis* (see Chapter 10). Still later, those who advocate a stronger *pribumi* role in the economy have worked through ICMI, a grouping of Muslim 'intellectuals' led by another close Soeharto aide, Minister of Research and Technology Habibie.

The first selection in this chapter is from an article by **Kwik Kian Gie,** a Dutch-trained economist who is a noted economic commentator, and later became one of the leading figures of the Indonesian Democratic Party (PDI). The article appeared in 1978 in *Kompas,* the highly respected and influential Catholic-owned daily. Kwik's piece is accompanied by a response by **Amir M.S.,** a *pribumi* businessman, which in many ways is typical of the kind of viewpoint that Kwik's article was designed to address. While Kwik argues that Chinese domination of the economy is but a myth, pointing to the considerable assets of state banks and giant state firms, Amir M.S. counters that the bulk of the credit that state banks provide goes to established Chinese businesses. He also attacks what he sees as the 'exclusiveness' of the Chinese business community, which he says inhibits *pribumis* from entering into what has been a mostly Chinese domain. The Kwik-Amir exchange is interesting not for the 'data' that the two participants provide to support their views, but because it represents one of the earlier, and still rather rare, cases of open 'dialogue' on the politically sensitive issue of *pribumi*-Chinese relations.

The piece which immediately follows is from a document which was produced to summarise the results of a 1980 Indonesian Chamber of Commerce and Industries **(KADIN)** conference on KEPPRES 14A, a state policy designed to reduce the gap between *pribumi* and Chinese economic power. Heading the steering committee, notably, was Probosutedjo, a businessman and half-brother of President Soeharto, who is widely regarded as a staunch critic of Chinese domination of the economy. While the document expresses support for KEPPRES 14A, it is also forthright about the potentially explosive situation which might ensue if little progress is made in addressing what is seen to be the imbalance between pribumi and Chinese economic power. Notably, the document was produced at a time when the larger Chinese business groups played only a very limited role in KADIN and other business associations, which therefore tended to represent the views and interests of the usually smaller *pribumi* businesses.

The next excerpt presents the views of **Slamet Bratanata,** a Minister of Industries during the early years of the New Order who later became one of its most outspoken critics. In this piece, which appeared as an interview published in

1981 in the respected social and economic affairs journal, *Prisma,* he suggests that the government's new-found commitment to addressing the *pribumi*-Chinese economic imbalance was merely a 'political cloak', worn for the sake of convenience. He was also referring to such policies as KEPPRES 14A. Bratanata's views are a good example of those who were early supporters of the New Order but who soon became disenchanted with it for what they saw as a lack of commitment to egalitarianism.

The final excerpt is from the autobiography, published in 1987, of the above-mentioned **Hasyim Ning,** who was one of the greatest symbols of successful *pribumi* entrepreneurship before the New Order. Though he remained an important business figure in the New Order, he was clearly superseded by newer, largely Chinese-owned, businesses. In that regard, he also came to symbolise the decline in fortunes of the small, pre-New Order bourgeoisie in recent decades, although in truth, only a handful of successful *pribumi* entrepreneurs ever emerged in the 1950s and 1960s. In this piece, Ning describes, in a rather cool and detached fashion, the economic imperatives of the New Order period which favoured the more established Chinese entrepreneurs. Though he blames the 'mentality' of his *pribumi* colleagues for their inability to compete with the Chinese, he also attacks what he sees as the latter's 'exclusiveness'.

From these contributions, it can be seen that the controversial issue of Chinese-pribumi relations is inextricably linked to the equally volatile debate on the maldistribution of wealth in society. The issue of race, therefore, overlaps considerably with the issue of class, which the New Order has usually been concerned to repress. The common perception of concentration of wealth among the Chinese is, however, being somewhat eroded by the emergence of larger *pribumi* business groups, including those under the control of members of powerful families of politico-bureaucrats. Among these are businesses owned by the children of the President himself. It is yet to be seen, however, whether this new *pribumi* element of the bourgeoisie will have the kind of direct avenue to state power that has been denied to its Chinese counterpart.

Vedi R.Hadiz

Kwik Kian Gie (1978)
THE MYTH OF CHINESE ECONOMIC DOMINANCE

> From 'Non-Pribumi, Dominasi Ekonomi dan Keadilan Sosial' (The Non-pribumi, Economic Domination and Social Justice), *Kompas,* 23 June 1978. Reprinted in: Kompas, *Mencari Bentuk Ekonomi Indonesia,* Jakarta: Gramedia, 1982:410–413.

People have recently been discussing social justice a great deal. They have also been saying that they experience social injustice because the economy is dominated by that small group in society that is of Chinese descent. Such

feelings make no distinction between Chinese with foreign citizenship and those who are Indonesian citizens. Indonesian citizens who are ethnic Chinese have thus suffered discrimination in such matters as obtaining domestic investment facilities, investment loans and gaining admission to university…
All of this is caused by the conviction that the economy is dominated by Chinese. It has even been claimed by one newspaper that exactly 70 per cent of the Indonesian economy is dominated by people of Chinese descent, and that by the year 2000 they will effectively control 100 per cent of our economy. In order to focus the subject for discussion and analysis, I will start with this conviction. Firstly, I will examine whether it is true that 70 per cent of our economy is now controlled by ethnic Chinese.

Some facts

As there are no precise statistics on ethnicity and control of the Indonesian economy, I can present a number of important facts:

1 In the banking sector, 94 per cent of business is carried out by state banks, with private banks accounting for only 6 per cent of total activity. This 6 per cent can be further reduced, for banks such as Citibank, Chase Manhattan, Bank of America, European Asian Bank, Algemene Bank Nederland and American Express are owned by foreigners. Other banks are owned by public foreign Chinese, such as the Hong Kong Shanghai Bank. Some are owned by *pribumi* Indonesians, and still others by ethnic Chinese Indonesians. So what is controlled by ethnic Chinese is only X per cent of 6 per cent, and what is controlled by Indonesian Chinese is only Y per cent of X per cent of 6 per cent
2 Let us now reflect on the volume of business conducted by Pertamina. We may wonder, how many thousand ethnic Chinese companies would equal Pertamina's total business? Pertamina's debts once reached US$ 10 billion, or Rp 4,000 billion.[7] If we consider that the average size of a Chinese-owned company is Rp 100 million, then Pertamina's debts alone were the equivalent of 40,000 ethnic Chinese companies. Further, consider how much of these assets are owned privately by ethnic Chinese and how much are debts that must be paid back to state banks? The net worth of a company is its total assets less debt. So if we only count the net worth, then their share of the national economy is quite inconsequential. All the more so if compared not only to the debts of Pertamina, but to its total assets and business activity. So what does 'control' of the economy by ethnic Chinese really mean? Are there really 40,000 companies owned by ethnic Chinese with an average net worth of Rp 100 million? Even if true, it would only be equal to the level of debt once attained by Pertamina. After making this comparison with Pertamina, we might then add the business activities of [the tin monopoly] PN Timah, the fertiliser factory Pusri, [the food logistics board]

Bulog, [the state airline] Garuda, [the electricity monopoly] PLN, and other giant state corporations too numerous to mention here. Even without precise figures, it therefore seems impossible that 70 per cent of the Indonesian economy could be controlled by ethnic Chinese.

3 The large-scale economic development carried out by the New Order government has caused many *pribumi* companies to emerge and expand. Certainly, the managers seen in front of these pribumi-owned companies are often ethnic Chinese. But these people are salaried staff, not the owners. We have many 'Ali-Baba' companies in which the Ali is now the *tauke* [the 'Chinese boss'] and the Baba, the employee. So besides the massive state corporations that I have mentioned, there are now also many pribumi-owned business empires—even if they are difficult to recognise because those seen in front are often *non-pribumi* salaried managers.

4 Without statistics, we can say that 90 per cent of the economy is now controlled by the state. The remaining 10 per cent controlled by the private sector consists of the following:

   a Foreign companies, mostly powerful multinationals able to manipulate and combine resources from all over the world.
   b Foreign companies masquerading as Indonesian companies.
   c Joint-venture companies between foreigners and Indonesians.
   d Foreign companies that are not empires nor multinationals. This includes small- and medium-scale companies owned by Chinese who are not Indonesian citizens.
   e Non-government companies owned by the public or cooperatives, such as those grouped together under conglomerates like KOSTRAD and PT Tri Usaha Bakti.[8]
   f Small, medium-scale and giant companies owned by *pribumi* business people.
   g Small, medium-scale and gigantic companies owned by Indonesians who are of foreign descent, such as Arabs, Jews, Europeans and Chinese.

What percentage of this very diverse private sector, which adds up to 10 per cent overall, is actually owned by Indonesians of Chinese descent? Because we do not have the figures it is difficult to calculate this, [but] there are two estimates at opposite ends of the spectrum. My own estimate is that only a fraction of 10 per cent of the economy is controlled by ethnic Chinese Indonesians. Others have estimated that they now control 70 per cent. Which is correct? Both may be wrong because neither possesses precise data. But we have at least presented some trends based on the facts. It is thus very important to study the contemporary pattern of control of our economy in a scientific and objective manner.

Social justice

There are those who say that the 'economically strong' are synonymous with people of Chinese descent. Consequently, there should be *pribumisisasi* [indigenisation] and people of Chinese descent, even those with Indonesian citizenship, should be treated differently. I have said why I cannot imagine how the economically strong could be synonymous with the ethnic Chinese. For me, the 'economically strong' is synonymous with the state. But for the purposes of discussion let us assume that this is so. Let us also accept a policy of indigenisation. What would occur? According to Dr Daoed Joesoef,[9] what would occur is that rich *pribumis* would take the place of rich *non-pribumis*. The main problem, namely the gap between rich and poor, would remain unresolved.

If it is true that the economically strong are synonymous with people of Chinese descent and that [we are seeking] to resolve the problem of the gap between the economically strong and the economically weak without taking race into consideration, then three objectives would be achieved simultaneously:

a Those of Chinese descent would still be affected anyway, because we can assume that the economically strong are of Chinese origin.
b Because the objective is to resolve the problem of the gap between the economically strong and the economically weak, this will both affect the ethnic Chinese and resolve the problem of social justice.
c We do not have to weaken the principle of Humanitarianism in the *Pancasila,* because we do not need to use racial criteria as the basis for treating fellow citizens differently.

In systems which are not communistic, totalitarian or centralised, economic development always entails a gap between the rich and poor. This is not just Indonesia's problem.

Amir M.S. (1978)

THE NON-*PRIBUMI* AND SOCIAL JUSTICE

This article appeared in *Kompas* on 7 July 1978 in response to the preceding article, which title it shared. It is reprinted in Kompas, *Mencari Bentuk Ekonomi Indonesia,* Jakarta, Gramedia, 1982:414–417.

This title attracts much attention because of the sensitivity of the issue. As Kwik has indicated, we cannot deny that many people are certain the economy is dominated by the Chinese… What I find most interesting are the facts that Kwik presents to refute the widespread conviction—suggested by a newspaper—that 70 per cent of the economy is dominated by ethnic Chinese. Presenting his evidence, Kwik examines all sorts of economic activities, such as banking,

state corporations and Ali-Baba companies. At first glance, the evidence he presents seems to be based on systematically organised facts, so it appears logical and objective. His evidence gives the impression that it conforms to scientific requirements.

Ownership, not control

Owing to the lack of comparative data, we might just accept Kwik's assertion that the private sector accounts for only 6 per cent of total banking activity, with state banks accounting for the other 94 per cent. From this he draws the conclusion that ethnic Chinese control only a very small share: Y per cent of X per cent of 6 per cent. In the analysis that follows I make two central points. Firstly, that money is a decisive economic resource… Second, that the Chinese community in Indonesia is still very closed and isolationist.

We can accept that state banks play the [major] role in 94 per cent of banking, but this does not mean that the money is really controlled by *pribumi* social groups. What is most decisive in an economy is not ownership, but who actually controls the money that is in circulation. One way to determine economic domination is to thus calculate who obtains the largest share of bank loans. What must be analysed, therefore, is the percentage of loans that state banks provide to ethnic Chinese.

This figure should then be added to the above Y×X×6 per cent. Money remains the most important economic resource, regardless of where it originates, who owns it, and whether it comes from personal wealth or is borrowed. For economic laws like the multiplier effect always apply, regardless of who puts the money to economic use. One characteristic of the Indonesian Chinese community is that it is traditionally very close-knit, which makes this community closed, isolationist and possessing a high degree of solidarity. Its closed social structure and the credit facilities that Chinese receive from private and government banks mean that the economic benefits produced from these multiplier effects are generally just recycled within this social group…

Not synonymous

Clearly, it is still very difficult to find a Chinese company comparable in size to PN Timah, Pusri, Bulog, or the others which Kwik uses for comparison. But we cannot accept that the size of a company is synonymous with the extent of its economic dominance. What has to be examined to determine 'dominance' are the companies which operate behind these state corporations, meaning: who owns the suppliers and contractors for these gigantic corporations? Only then can we know whether it is true or not that 70 per cent of the Indonesian economy is actually controlled by ethnic Chinese.

Certainly, the 'net worth' of a company are its assets minus its debts. If their debts are great, the net worth of these Chinese companies may indeed be quite

small. But, as I have stated, no matter where it originates money can always be invested—or used to buy luxury houses and extravagant cars. Moreover, the net worth [recorded] in company accounts is not the same as the *actual* net worth. To calculate the true wealth of a group we also have to add the total commissions from over-invoicing, import discounts, transfer pricing, as well as loans not repaid… If this total could be revealed, the net worth of ethnic Chinese companies would certainly be quite large.

Finding a solution

The *pribumi*/non-*pribumi* problem is a chronic social illness which periodically explodes, harming everyone. In my opinion, the *pribumi*/ non-*pribumi* problem would not be critical if non-*pribumi* groups—specifically the Chinese—start to make unambiguous efforts to overcome their business isolation, allowing *pribumi* business people the opportunity to enter the chains of economic interests that they control, and thus [become part] of an integral unit.

In concrete terms, the government itself should allow large *pribumi* businesses to expand, while non-*pribumi* business should provide more opportunities for pribumi businesses to become part of their economic networks. More to the point, companies like Astra[10] should appoint more *pribumi* dealers and distributors, creating national economic networks which are harmonious and no longer divided into *pribumi* and non-*pribumi*. One fact that cannot be overlooked is that foreign multinationals operating in Indonesia mostly work with non-*pribumi* companies…which brings few benefits to *pribumi* business. The obvious efforts of those who call themselves 'economically strong' to collect finance to establish small shops is psychologically unsound, because it puts economically weak *pribumi* business in a position of absolute dependence.[11] If we want to remove the terms *'pribumi'* and 'non-*pribumi*' from our social vocabulary, then we need to start taking concrete steps in this direction.

KADIN (1980)
TO BECOME MASTERS OF OUR OWN ECONOMY

From *Dengan KEPPRES 14A/1980, Menjadi Tuan di Negeri Sendiri. Hasil Seminar KADIN* (To Become Masters of our Own Country with Presidential Decree 14A, the proceedings of a conference of the Indonesian Chamber of Commerce and Industry) 10–12 July 1980, Jakarta: Penerbit Universitas Indonesia, 1986:1–26.

Observations and impressions of the Chairman of the Steering Committee

A national conference was held by KADIN in Jakarta from 10 to 12 July 1980. After carefully and attentively following all the on-going plenary and commission hearings, and without any political lobbying during the intermissions, mealtimes or meetings, our steering committee has drawn the following conclusions:

1 There was an overwhelming response from the participants because the opening ceremony was held in the Palace. After hearing the speech of the President setting out the guidelines for the Conference, the faces of all the participants reflected feelings of satisfaction, contentment and optimism about business in the future.
2 Dissatisfaction and sharp criticism was quite often also evident in the plenary sessions, which caused some tension, particularly during the question and answer dialogues with ministers of the Third Development Cabinet. Yet the participants were generally satisfied with the responses, the explanations and the suggestions made by the ministers, and grew more positive about the future. They were optimistic that the Eight Paths to Equity[12] and Presidential Decree no. 14A of 1980 would be implemented, because the ministers were generally prepared to accept their suggestions.
3 All participants in the Conference supported government regulation of the business sector, and demanded that every regulation be carried out according to the goal of equity and in accordance with the GBHN…

After learning of the causes and consequences of social disturbances—which certain parties call social unrest—every government official has no choice but to apply all government regulations so as to head towards the spirit of the principles of *Pancasila,* Article 33 of the 1945 Constitution, the Eight Paths to Equity, and Presidential Decree 14A. If this is not done quickly, then certain parties will undoubtedly continue to take advantage of the imbalances [created by] development, and twist the situation for no other reason but to create disturbances or for personal gain. The important thing is that government officials must be able to accommodate the aspirations of the business community.

Improving cooperation between economically strong and weak businesses

a The persistence of the terms *'pribumi'* and 'non-*pribumi*' is basically caused only by the lack of attention most government officials give to helping the economically weak in the centre and in the regions, and thus realise the goals of the Eight Paths to Equity and Presidential Decree 14A, raising fears that [this] decree may not be implemented as hoped.

b The so-called 'non-*pribumi*' [have given] little attention to helping make government programs successful. There are times when certain non-*pribumis* have worked together with certain regional and central government officials and misused *[menyelewengkan]* government efforts to realise the Eight Paths to Equity for their personal gain, causing the weak to feel disadvantaged, that they have lost business, and sometimes even to lose hope.

Based on facts which cannot be denied, [it is clear that] to eliminate the terms *'pribumi'* and 'non-*pribumi*' to prevent dissension in building an integrated Indonesian nation, and to facilitate the government in implementing economic equity as outlined in the GBHN and Presidential Decree 14A, then the government must immediately regulate to require economically strong businesses, generally owned by non-*pribumis,* to assist and cooperate with economically weak business. Economically strong non-*pribumi* businesses, which dominate trade in both the centre and regions, must quickly get used to helping the government facilitate the distribution of goods, and must not engage in speculative activities just to get excessive profits. Nor should they ignore what these activities cause, namely the closing of business options and the creation of obstacles to the expansion of economically weak business…

It is natural for economically weak business groups, who are generally *pribumi,* to demand that they be given more business opportunities, because they know the goals and independence aspirations outlined in Article 33 of the 1945 Constitution and in the *Pancasila*. Economically weak *pribumi* businesses, which have not benefited greatly from development, feel that their share has been plundered by the economically strong business groups, while the officials who should be monitoring the situation worry that they might lose the non-official benefits that they thus enjoy.

On the other hand, successful non-*pribumi* business groups feel that they have done no wrong, because there is actually no clear division between economically weak *pribumi* business and economically strong non-*pribumi* businesses. So the term *'pribumi'* is really only [used] to try to draw the attention of government officials and *non-pribumi* business to the conditions and rights of the economically weak.

We are confident that the terms *pribumi* and non-*pribumi* will no longer be used and will disappear naturally whenever the businesses of the weak have been raised up, and the economically strong help them rather than just taking away their share. Banning people from using the term *pribumi* without improving their fortunes will surely only give rise to undesirable excesses. In this context, it should be recalled that racial attacks occurred several years ago—before the terms *'pribumi'* and 'non-*pribumi*' even existed!

Slamet Bratanata (1981)

WE NEED NEW POLICIES TO HELP THE *PRIBUMI*

This article appeared as 'Kebijaksanaan "Baju Politik"' (Policies which are 'Political Cloaks'), *Prisma* 10, 4:56–59.

I see the last fifteen years as a process of economic decline for the *pribumis*. I hold this opinion because I start from the position that many *pribumis* had a [significant] economic role in the mid-1960s. Automobile assembly is one example. But what is the situation today? Those *pribumis* who were quite big in the mid-1960s have now been defeated. They have been replaced by those who are not *pribumi*. Another example is the Majalaya textile factories. Those that used to be big now have to be rehabilitated, after sinking [because of] competition.

Certainly, we can say that our economy has made progress over the last fifteen years. But we need to pose the question: who has carried this out, the *pribumi* or the non-*pribumi?*… The question of *pribumi* versus non-*pribumi* is related to what… John James McDougall called 'technocratic authoritarianism'.[13] This concept has underpinned the authoritarian development ideology espoused by a certain elite in our country. This elite includes ethnic Chinese businessmen, who are one of the chief mainstays of the economy. These Chinese businessmen have taken advantage of their position as a mainstay of the government. Clearly, it is not their 'fault'.

We believe in an authoritarian development ideology and what is called the 'trickle down effect'. In developing, we help those on top; we pamper those who are diligent, persistent, and able to deliver rapid economic growth. The benefits of development are then expected to trickle down to those below. But it seems that during this Third Five-Year Plan the government has begun to realise that not everything occurs as is prescribed by textbooks. Non-economic factors are involved. Vested interests have certainly [disrupted] this process of trickle-down. In the meantime, people have begun to lose patience, demanding that the government implement something similar to the Ethical Policy.[14]

The steps that the government has taken to help the indigenous economy, such as was intended by KEPPRES 14 and 14A, are not necessarily a complete about-face from technocratic modernisation. If this path were abandoned, it would naturally give rise to questions: What would be the fate of the economic and political alliances that had become established? Would those who had been the mainstays [of the government] be willing to be left behind in order to foster the indigenous economy? This might be possible politically, but I'm not sure that it can be done economically. Would they be willing to have all these interconnecting ties cut, just like that? It is this which makes the reorientation towards developing *pribumi* economic strength in our country so difficult.

In the eyes of patriotic *pribumis,* the situation is even worse in view of the intimate relations between ethnic Chinese business groups and a number of key decision-makers. In fact, there is growing concern about the concentration of

economic and political power amongst a small number of citizens. This phenomenon was once publicly implied by Minister of Industry, A.R.Soehoed, and then dramatised by his subsequent 'retraction'.[15]

We differ from Malaysia in strengthening the indigenous economy. In Malaysia, those holding state authority have faith in what they are doing. There, government administrators are people who see the effort to advance the indigenous economy as a philosophy or an ideology. Those in power don't consider that the *pribumi* have made more mistakes than they have done good. In my opinion, we should doubt whether people who did not have this conviction from the outset, but were later urged to promote and strengthen the indigenous economy, could play as positive a role as those with the faith of the Malaysians. I don't think it is possible. Consequently, policies that seem to resemble the Ethical Policy are just 'political cloaks', worn whenever it is felt to be necessary.

Hasyim Ning (1987)
THE STRUGGLES OF A *PRIBUMI* ENTREPRENEUR

From *Pasang Surut Pengusaha Pejuang, Otobiografi Hasjim Ning* (The Ebb and Flow of a Fighter-Entrepreneur, the Autobiography of Hasyim Ning), Jakarta: PT Pustaka Utama Grafiti, 1987:326–327, 383–389.

I strongly support the government's policy of continuing to protect Indonesian national entrepreneurs, because without this protection they will be simply swallowed up by foreign capitalist forces, or by Chinese with international connections. Certainly, every citizen should receive the same treatment, and is legally entitled to it But with few exceptions most Chinese have not been fully integrated [into Indonesian society], and protection for Indonesian entrepreneurs is still needed because we don't want the rich-poor gap between these two social groups to continue to be a cancer [threatening] Indonesia's society, politics or security.

I am therefore really surprised whenever a minister expresses the opinion that there has been enough government protection and facilities provided to Indonesian national entrepreneurs, [and] that that sort of approach will not let them mature quickly. The minister is only looking at state finances, but forgets about the social and mental conditions of Indonesians, who are generally not able to survive the competition with those who have a tradition of entrepreneurship… I am not talking about this issue from my own point of view as an entrepreneur, because I have worked together with many different peoples to develop my businesses, including well-known figures like Ir Ciputra and Mochtar Riady.[16] What I am concerned to do is to prevent those of my people who are just starting out as entrepreneurs from being squeezed…

[After the New Order was established] President Soeharto's policies placed great importance on economic growth. Because according to theory and based on Indonesia's own experience, communists always grow stronger whenever the economy is weak. As a military officer who had twice been stabbed in the back by communist revolts, he had no alternative but to increase economic growth and strengthen the role of the military. To carry out this policy the President gathered the technocrats, expert economists, into the National Development Planning Board, BAPPENAS. It was they who drew up Indonesia's guided, step-by-step, economic development programme. This programme itself set the direction of state political-economic policy, subsequently formulated into the Broad Guidelines for State Policy.

All of this required a lot of capital, capital which we could not produce ourselves. One of the easiest ways [to meet this need] was to borrow from the rich countries, especially America and the non-communist European countries. But just this was not enough. A rapidly growing population needed to be given work, so industries had to be developed. While the state could build large-scale industries using [foreign] borrowings, medium-scale industries such as car assembly, cement, textiles, and industries for such things as nails and household appliances were also needed to support development. The country could not continuously import these because this would deplete our foreign exchange and not provide much employment But the state did not have the money for this. Nor did Indonesian business.

One of the most feasible alternatives was to thus open the door as wide as possible to foreign capital. Industrialists from advanced countries were not interested in investing. Rather than investing their capital in politically unstable countries like Indonesia, they prefer to reinvest their money where it is guaranteed by the state. Business groups in China, Hong Kong, Taiwan and Singapore were prepared to provide the capital using those of their people who had become Indonesian citizens. But these groups asked for guarantees that they could operate in safety and that 'anti-Chinese' sentiments would be seriously and convincingly eliminated. The government evidently had no other option, and it accepted the preconditions set by capitalists from Hong Kong, Taiwan and Singapore. Industries sprung up in the major cities. Mention any of these industries, and at least 70 per cent is their capital…

In view of the rate of growth, the vigour of trade and the extent to which the workforce received reasonable wages, the prosperity and welfare which people enjoyed effectively neutralised the agitation and campaigns of the communists. So it seemed that security had been established. But the stability was superficial, because from time to time violent and bloody clashes broke out when the people attacked the property and lives of Chinese—whether citizens or not.

From my own observations, it has been precisely during the New Order period that large-scale attacks against Chinese property and life have occurred most frequently and been most violent. Such racial attacks certainly occurred under previous governments, such as in Kebumen and Tangerang in 1946, and then in

1963 in Solo and Sukabumi. But racial outbreaks have occurred repeatedly during the administration of the New Order. For example, in 1966 all Chinese in Aceh were expelled from the province when it was claimed that they had supported the PKI rebellion the previous year. And in Bandung a racial attack on Chinese and their property occurred in 1970 for a very minor reason, after a Chinese youth beat a pedicab *[becak]* driver who had scratched his car. The unrest spread to other cities in West Java, such as Bogor and Sukabumi. And when the Prime Minister of Japan, Tanaka, visited Indonesia in January 1974 youth were evidently 'permitted' to greet Tanaka with demonstrations to protest against Japan's economic policies that ignored the difficulties faced by the peoples of Southeast Asia, especially Indonesia. But this demonstration once again provoked a mass attack on Chinese property, including shops and cars…

In my opinion, the assault on Indonesia by Chinese foreign capital, using their people inside Indonesia, has given rise to an ever-widening gap between the people and the Chinese over how the 'development pie' is divided up… The widening gap in wealth caused by the impressive economic development has often caused social unrest, despite determined government efforts to prevent racial violence. For example, the incident that broke out in 1980, which began in Solo and then spread to other towns in Central Java. Not only was property destroyed, but many lives were lost. Including children. Two years later it occurred again in Yogya. Also for a very minor cause. Fortunately, no lives were lost because of the skill of the state in containing [the violence]. Yet two years later there was an incident directed at Chinese property—shops and banks—in Jakarta. The destruction was caused by an explosive device.

I think that the government is not unaware that this racial conflict has its origins in the yawning gulf between rich and poor citizens from different blood lines. The government has experts who are skilled in examining, researching and providing analysis… And I am certain that the government would take the side of its own people in all such matters. However, the government gives more attention to economic development as formulated from one *Repelita* to the next by the experts in BAPPENAS. I think that the government certainly knew that the private foreign capital that came from Hong Kong, Taiwan and Singapore through Indonesian Chinese would dominate the middle and upper levels of the Indonesian economy. And that this policy would give rise to racial conflict Certainly, the government has used all its authority to dowse any sparks that could inflame racial hatred against the Chinese. There have been bannings of magazines and newspapers containing news taken from the foreign press…— According to foreign observers, government activities to contain anti-Chinese attacks are [intended] to guarantee security, so that Chinese capitalists from Hong Kong, Taiwan and Singapore feel safe to invest even more capital in Indonesia…

Looking at these indications, I am not so sure that the racial problem can be solved in just one or two generations. The process of assimilation will be very gradual, primarily because the ethnic Chinese community is known for its

tradition of exclusivity. Their skill and perseverance in business will mean that they will have an economic status far above that of the indigenous community, which traditionally prefers to just take it easy. But the peculiar attitude of government officials towards the Chinese is just as important. There is a common joke, especially amongst common people, that if a European, a Chinese and an Indonesian arrive at the same government office, the first to be served is the European, then the Chinese, and, if there is time, finally the Indonesian. It doesn't matter that the Indonesian arrived and registered first. And if the law is broken the European is given a polite warning, the Indonesian is abused, and the Chinese suffers extortion…

In my opinion, all entrepreneurs give priority to gaining large profits from all of their businesses. So do the Chinese entrepreneurs who invest in Indonesia. They do not want to lose money. And as long as they remain uncertain about many aspects of social life, they will generally not feel secure about their investments in Indonesia. Therefore, if they invest in Indonesia they will seek the largest profits possible in order to quickly recover their capital, and then reap huge profits afterwards… The greed of Chinese businessmen who invest in Indonesia is actually very unhelpful for the assimilation efforts made by the government and Chinese who have become Indonesian citizens, and which deserve support. People cannot differentiate between foreign Chinese and Indonesian Chinese citizens. As I have said, as the Chinese grow economically stronger and the Indonesians grow economically weaker, so will these racial explosions become more common.

NOTES

1 Most of the historical discussion here is based on Coppel (1983:1–30).
2 Moertopo was head of the military's semi-clandestine, intelligence unit, OPSUS (Special Operations).
3 And therefore, ostensibly targeted against a visit made at the time by Japanese Prime Minister, Kakuei Tanaka.
4 Sudharmono was also Chairman of Golkar from 1983 to 1988 and vice-President from 1988 to 1993.
5 Some are now important players in the economy, including the Bakries and Fadel Muhammad (Pangaribuan 1995).
6 Bambang Soeharto's statement was published in the Jakarta-based daily newspaper, *Media Indonesia,* on 24 May 1991.
7 At the time this article was written the Rupiah was fixed at a rate of Rp 415 to one US dollar, but since the 1980s has been allowed to float against a basket of currencies.
8 The reference is to military-owned corporations.
9 Daoed Joesoef (pronounced 'Daud Yusuf'), a man closely associated with CSIS, was the Minister for Education and Culture from 1978 to 1983. It was Joesoef who was responsible in the late 1970s for the 'Normalisation of Campus Life', the euphemism for the crackdown on student dissent.

10 Astra is a large Chinese-owned enterprise that was the target of criticism of Chinese dominance of the economy.
11 As a result of the 1974 riots, certain large Chinese-owned companies began to form sub-contracting relationships with smaller, *pribumi,* business groups.
12 This formula is an important component of 'The Basic Guidelines for State Policy' (GBHN), which emphasises the pursuit of equity.
13 The author is referring to MacDougall (1976).
14 This is a reference to the early twentieth century Dutch policy of reformism which emphasised promoting the welfare and education of Indonesians.
15 In 1980 Soehoed specifically attacked what he called foreign-linked conglomerates, and said that only state action could rectify the concentration of business activity around them. His remarks were widely taken to refer to the subsidiaries of Japanese TNCs. Soehoed subsequently retracted his remarks (Chalmers 1996).
16 Ciputra and Mochtar Riady are two ethnic Chinese entrepreneurs who head major business conglomerates, namely Pembangunan Jaya and the Lippo banking group.

10
The economic democracy debate
Conglomerates and *Pancasila*

INTRODUCTION

By the late 1980s it had become clear that the push for economic liberalisation begun earlier in the decade had produced favourable results. In 1984, at about the onset of the change in orientation to a strategy emphasising the export of manufactured products, total oil and gas revenues amounted to a little over US $16 billion, whereas non-oil and gas revenues amounted to less than US$5.9 billion. By 1988, however, the former only amounted to under US$7.7 billion, and were considerably outstripped by the latter's total value of over US$11.5 billion (Rudner 1991:6). Such developments certainly helped vindicate the policies primarily supported domestically by the economic technocrats and intellectuals of Chapter 6. However, this did not make their position unassailable. On the contrary, at that time it appeared that growing criticism of the alleged broader social and economic consequences of those policies had caused the economic liberalisation process to stall.

As mentioned earlier, there were vested interests opposed to the extension of economic liberalisation from the financial and trade sectors to the productive sector, legitimised by long-influential notions of economic nationalism. These interests were able to take advantage of another source of criticism of the 'liberal' agenda: populists who were concerned about the subordination of the country's egalitarian values to the requirements of economic growth. Indeed, there was a growing perception, expressed openly in the public debate, that the process of economic liberalisation had in fact exacerbated the already wide gap between rich and poor and that many of its aims were in blatant contradiction to the egalitarianism that was regarded as the cornerstone of the ideals of Indonesia's independence struggle and featured prominently in the Constitution. These were exceedingly politically sensitive subjects that threatened to undermine one of the most important pillars of New Order legitimacy—its stated commitment to upholding the *Pancasila* and the 1945 Constitution. Ironically, this was the case even though some state officials could still point to the fact that another of the pillars of New Order legitimacy—the promise to bring economic

development to the nation—was being fulfilled through the process of economic liberalisation, at least in the sense that it promoted economic growth.[1]

The political significance of these debates was underscored by the fact that they easily intermingled with another, parallel, debate of the time—the issue of the political succession. Though officially discouraged, by the late 1980s and early 1990s public discussion on the direction of Indonesian political life after the Soeharto period had indeed assumed greater proportions as people began to anticipate the emergence of the country's third President in the future. In 1993 Indonesia was to have completed the first 25 years of economic development under the New Order and discussions were increasingly directed towards the next 25 years, especially since it was assumed that Soeharto would not be able to preside over the greater part of it. In other words, the question of what would be the future economic direction of the nation was more or less naturally—and often explicitly—posed in relation to the question of its future political direction.

There were three important responses to the above developments, all designed to ease tensions that were rising to an uncomfortable level, First, Sumitro Djojohadikusumo, the undisputed high-priest of Indonesian economic development thinking, and a long-time, close Soeharto adviser, went on record to declare that the rich and poor gap had been considerably reduced during the New Order, and, importantly, that the number of people living below the poverty line had fallen dramatically (*Kompas,* 30 June 1989). The timing of this 'announcement' was clearly not arbitrary: it was designed to counter growing attacks focused on social disparities that had been levelled by economic nationalists and populists alike against the economic policies of the 1980s.

In the second response, the Indonesian Association of Economists (ISEI), when reporting to the President on the results of its 1989 annual conference, was instructed to formulate a theoretical framework detailing the principles and operations of Indonesia's economic system. While in one sense Soeharto's instruction can be regarded as a simple reflection of a continuing idiosyncratic concern to demonstrate Indonesian 'uniqueness',[2] in another sense, it was quite unprecedented, for it was clearly made in relation to a real political concern: growing public criticism of the erosion of egalitarian ideals caused by state economic policy. What the President was essentially doing was to ask the eminent organisation of academics to help him stave-off such criticism by 'scientifically' proving that Indonesia's economy was one which practised the 'Principles of Economic Democracy'. One outcome of Soeharto's meeting with ISEI was to begin a protracted discussion on 'Economic Democracy', addressed by all of the selections that appear in this chapter.

The third response, again made by Soeharto himself, was even more dramatic and idiosyncratic. In March 1990 the President summoned a group of major businessmen to Tapos, his private ranch in West Java, to ask them to transfer 25 per cent of the shares of their respective companies to cooperatives, still a major symbol of continued official attention to the pursuit of egalitarian ideals. The meeting itself, which included a long lecture by Soeharto on the virtues of those

ideals, was televised nationally. Thus, an audience of millions could watch an impressive coterie of businessmen—representing what had been popularly dubbed the 'conglomerates'[3]—listen obediently as the President publicly set out to protect the interest of the common people by personally initiating a measure to ensure a more equal division of the development cake. It could not have escaped the attention of the millions watching that the overwhelming majority of the 'conglomerates' were obviously men of Chinese background, something which would certainly have touched a raw nerve given the history of uneasy relations between ethnic Chinese and *'pribumi'* Indonesians since colonial times (see Chapter 9). It must be presumed, though, that Soeharto himself would have counted on this. Thus, what the ever-astute politician seemed to be doing constituted a subtle, though powerful, tactic of intimidation—the aim of which was to underline to these businessmen that, in spite of their wealth and position, it was the power of the state that maintained the political stability which allowed them to take advantage of economic opportunities. Just in case they didn't get the message, he suggested in his lecture that a more equal distribution of wealth was a condition for the prevention of social disturbance.[4]

The first selection in this chapter is taken from a rather startling document produced by the symbolically important, but actually powerless, **Supreme Advisory Council** (DPA),[5] which sums up very clearly the nature of the growing concern that economic liberalisation was, in fact, essentially in contradiction to the 'higher' values of the nation. While the DPA admitted that state economic policy had been very successful in achieving a high level of economic growth, it urged the government to maintain controls in the name of protecting the public good and to not allow the free rein of market mechanisms to harm the common people or contradict the egalitarian ideals of the Constitution. Most astonishingly, it called for a fundamental reassessment of economic policies, alleging that they have given rise to social disparities and were of little use to cooperatives and small businesses. Reflecting a commonly held perception at the time, the DPA directly identified the deregulation process of the 1980s as being primarily responsible for the rise of new monopolies.

The second selection, by **Soeharto** himself, is taken from a summary of the President's 'message' of 1989 to ISEI, edited by the well-known economist, Hendra Esmara. Here Soeharto assesses economic development in Indonesia as being an unqualified success and expresses his amazement at how 'some people' could possibly question this fact. As mentioned above, it was on this occasion that the President instructed the association to produce a document that would 'specify the principles of economic democracy'. An additional interesting feature of this particular excerpt is that it yet again displays Soeharto's, and in fact the New Order's, rejection of the idea that the Indonesian experience can be meaningfully compared to that of other nations. Assuring the association that he perfectly understood the ideas of Rostow—a theorist still very highly regarded among mainstream Indonesian economists—Soeharto, nevertheless, claims that his own economic policies have been based on an assessment of the unique

requirements of the country, and not influenced by the observations of any foreign academic.

The third selection is by **Sjahrir,** influential economist and ardent proponent of economic liberalisation. In this article, Sjahrir again displays a unique unhesitancy to directly attack some of the most highly cherished symbols of a mythical egalitarian past. Here he takes a shot at Mohammad Hatta, the economist, the first Vice-President of Indonesia, and one of the most revered founding fathers of the nation. Recognising the influence of Hatta's thoughts on the economic aspects of the 1945 Constitution, which gives great emphasis to egalitarian ideals, Sjahrir suggests that they are in fact utopian and of little relevance to the real world. Advancing the notion that economics is about maximum efficiency, he belittles state companies and cooperatives as unable to perform efficiently given the social character of their operations. While acknowledging many people's distrust of the new, large conglomerates, Sjahrir makes a case for the superiority of private enterprise. The key to reducing public distrust and potentially dangerous social jealousies, Sjahrir suggests, lies in large private firms' ability to demonstrate their 'social sensitivity' and concern for public welfare, as well as a willingness to support market reforms.

The next selection is by **Kwik Kian Gie,** another well-known economist, who has recently entered politics. The piece represents still another attempt to resolve the apparent contradiction between economic liberalisation and egalitarianism, and between the increasing importance of private enterprise and the continued role of the state in safeguarding the public interest. Kwik starts out by criticising those that have become too intoxicated with the euphoria of economic liberalisation and go as far as to suggest that 'the best government is the least government'. Nevertheless, Kwik's contribution stands out as one that most convincingly defends economic liberalisation, the market—and even capitalism—on the basis of the official philosophy itself. According to Kwik, who heads the research department of the small Indonesian Democratic Party (PDI), his own investigations into the 1945 Constitution, the Broad Guidelines for State Policy (GBHN), and the Five-Year Development Plan, have not found an explicit rejection of liberalism, the market or capitalism. What is rejected, claims Kwik, is 'free-fight liberalism', where anything goes and the state is not around to ensure that individual rights do not injure the common good and that the development of a citizen's full potential does not do harm to society. In essence, the case he is making is that there is in fact no contradiction at all between the basic values of the nation and of capitalism.

Frans Seda, the author of the selection that follows, is an economist of the generation following that of Hatta, but before that of Sjahrir and Kwik. A minister during the early years of the New Order, Seda's piece was meant to draw some conclusions about the meeting between Soeharto and the thirty-one major businessmen at Tapos mentioned earlier. Clearly inspired by the professed ideals of the independence struggle, Seda welcomes Soeharto's reiteration of the state's solemn duty to prevent the concentration of economic power in the hands

of the few. For Seda, the meeting brought up the fact that a more equal distribution of wealth was a kind of 'historic right' of the people, for they have provided the conditions which allowed the conglomerates to prosper. Furthermore, Soeharto's gesture at Tapos, according to Seda, demonstrated that the state had a role that went beyond the simple prevention of monopolies, and that the pursuit of equity entailed the redistribution of economic power within society. Seda's observations are given against the background of a comparison of the deregulation of the 1980s and the economic restructuring of the late 1960s.

The sixth contribution to the chapter is taken from the document which **ISEI** eventually produced in 1990 to fulfil Soeharto's request that it elaborate, scientifically, the principles and practice of 'Economic Democracy 'on the basis of *Pancasila*. While the document does not contain anything that was particularly new or innovative, it did reveal the intense strain that is often involved in attempting to synthesise the pragmatism of the principles of economic liberalism and the egalitarian features of a state philosophy and Constitution which embody the essential spirit and ethos of a much earlier, and more romantic, time. While extolling the virtues of a market economy, the document takes pains to point out that a controlled market economy exists in Indonesia, where the government can interfere to overcome imperfections and prevent monopolies. Nevertheless, a curious 'organic-statist' section of the document emphasises how the relationship between the three actors of the economy—state enterprise, cooperatives, and private business—are based on family principles and on mutual assistance, rather than on competition. Perhaps most importantly, in accommodation of recent attacks on economic liberalisation, the document states that social disparities must be kept at a 'reasonable' level. In short, the document displays some sophisticated intellectual acrobatics to try to reconcile the egalitarianism of Indonesia's earlier revolutionary ideals and the demands of a market economy.

The seventh and final contribution is by **Fadel Muhammad,** a relatively young and successful businessman who reportedly benefited much from the early 1980s State Secretariat-led policy of developing indigenous business.[6] The piece is an interesting admixture of observations and prescriptions, reflective of someone who has benefited from policies specifically designed to discriminate in favour of the small and medium—usually meaning, at least in the past, indigenous—business to countervail the dominance of ethnic Chinese business in the economy. In good populist fashion, Muhammad brings up the responsibility of business to society as a whole, suggesting that they should not be engaged purely in the pursuit of profit. Moreover, he warns that economic disparities could, in the end, act as a fetter to further economic growth. While accepting that the role of states in economies is being reduced—pointing out the 'success' of privatisation in Britain under Thatcher as an example—Muhammad still sees a big role for the Indonesian government in promoting small business, encouraging the development of the relatively backward Eastern Indonesia, and envisages an internationally competitive Indonesia Inc.

As mentioned earlier, all of the above contributions reflect a concern to resolve the contradiction between the demands of the market and egalitarian ideals, and between privatisation and a continuing, prominent, role for the state in the economy. It is significant that virtually none of the contributions argue for one extreme at the expense of the other. In part, this may be indicative of the continuing strength and emotive power of the legacy of Indonesia's revolutionary past, even in the face of seemingly inexorable pressures to abandon it. On the other hand, it is doubtful that the legacy would have remained as strong as it had if it were not propped up in the more recent past by an economic nationalism that had highlighted the concepts of national economic resilience, autonomy from foreign capital, and a concerted state-business strategy designed to serve the 'national interest', notions which were easily identified with the values embodied in the Constitution.

It is important to note that while the issues raised in these contributions possess a distinct contemporary flavour, they reflect the continuing relevance of the questions brought up in earlier debates of the 1960s and 1970s.[7] More than that, many of these questions must have entered the minds of some of Indonesia's founding fathers when they debated the contents of the 1945 Constitution. However, the changing constellation of domestic economic and political power, as well as the changing nature of Indonesia's integration into the world economy, has ensured that these questions have been treated in different ways during different periods.

Vedi R.Hadiz

Supreme Advisory Council (1989)
APPLYING THE FAMILY PRINCIPLE TO BUILD A COMMON ECONOMIC PURPOSE

From *Dewan Pertimbangan Agung* (Supreme Advisory Council), 'Upaya Mewujudkan Usaha Bersama Berdasarkan Asas Kekeluargaan Oleh Ketiga Pelaku Ekonomi Nasional Sesuai Amanat UUD 1945' (The Efforts of the Three Economic Forces to Realise a Common Enterprise Based on the Family Principle as Mandated by the 1945 Constitution), 5 October 1989, Paper no. 12/DPA/1989, Appendices 2–39.

Although the market economy policies put into place by the government have proved effective in organising the growth of the national economy, government controls are still necessary to prevent excesses which may harm the public good. The policies of deregulation and debureaucratisation [aimed at] reducing government intervention and giving priority to market mechanisms should be closely monitored, so that the spirit of common purpose and the family principle are not lost; nor should the growth of conglomerates be [permitted] to harm the

interests of the common people or contravene the spirit of the 1945 Constitution. In order to prevent [them] from having a negative effect on the national economy as a whole, the government can use fiscal policies, monetary policies and the legal system to intervene in this free competition, or issue laws directly to upgrade small-scale business, issue anti-monopoly legislation and control conglomerates…

Economic development as implemented in the period between 1967 and 1988 has clearly increased Indonesia's economic productivity… Under the leadership of the New Order, which has been determined to purely and consistently implement *Pancasila* and the 1945 Constitution, the Indonesian state and nation has been able to raise itself from economic decline to quite a high level of economic growth… Despite such welcome progress, we still confront all sorts of problems such as increasing unemployment, [in]equitable income distribution, and the falling value of the Rupiah… These developments present us with the challenge of reexamining and reevaluating the current economic system, including its principles, its conceptual basis, its policy basis, as well as its structure, functions and processes.

The national economy does not yet have a strong, sturdy or resilient structure, does not function to increase the prosperity of the common people, nor does it have self-reliant processes supportive of cooperativeness.[8] This has resulted in imbalances between the value-added obtained by producers of agricultural/primary products and traditional industries, and the value-added obtained by traders involved in distribution. This situation has put producers in a weak and dependent position because their incomes have increased very slowly, making them unable to make the investments [needed] for self-reliance… This structural defect has thus preserved the dualistic nature of the national economy, resulting in distorted terms of trade between agricultural, secondary and tertiary sectors, and harming the interests of agricultural producers.

As a sub-system of the life of the state and of the nation, a national economic system is one which gives priority to the common interests of society and government. In keeping with the 1945 Constitution, the government and houses of parliament act indirectly in the national economy, and are mutually supportive of the three forces in the national economy, namely state corporations, the private sector and cooperatives In order to realise a genuine *Pancasila,* it is the government's role to increase national economic productivity through discrimination, protection, subsidies and upgrading. The state apparatus implements these regulations using the bureaucracy.

The government's success in achieving its objectives greatly depends on whether it is supported by a clean and authoritative apparatus. The fact is, however, that many obstacles have arisen from the ranks of the government apparatus itself, so that regulation involving discrimination, protection, subsidies and upgrading have had a negative impact…

Historically, the three forces in Indonesia's national economy have had different roles, for each has different principles and experiences, and different

economic institutions, legal bases and missions. Their capacity and abilities also differ. The very numerous small-scale businesses and cooperatives have been left far behind by the other forces. Up to now, these three economic actors have generally operated independently, with no complementary and mutually supportive interlinkages. In fact, competition between these three economic actors has been very sharp, so that the less professional cooperatives and small-scale businesses have automatically been pushed to the side.

The policies of deregulation and debureaucratisation implemented so keenly by the government were primarily intended to reduce the high-cost economy, [but] have caused the emergence of new monopolies in the form of new groupings of conglomerates. Rationally, it is certainly necessary that these conglomerates grow so that we can deal with an international economic environment that is increasingly competitive. Yet in practice it is very difficult to limit these conglomerates in domestic competition. The unfortunate economic developments in the decade of the 1980s sharpened domestic competition, so that the strength of the economically strong[9] has become increasingly obvious. This has meant that the national economic system has tended to deviate from the family principle…

The very competitive market economy characteristic of the Indonesian economic system today encourages two forms of excess, namely concentration amongst economically strong businesses in the form of monopolies, and unfair market competition which destroys the economically weak, small-scale, businesses. The market mechanism is certainly a potent method for organising national economic life, but insufficient intervention by the government to control the market mechanism will give rise to many excesses that harm the public interest…

Article 33 of the 1945 Constitution stresses that branches of production which are important for the country and which determine the fate of the common people will be controlled by the state. ‘Controlled by the state’ does not necessarily mean ‘owned by the state’. [But] the state can use various legislative and regulatory means to give direction to economic activities so that they will be used in the interests of the country and the common people… Large and advanced state corporations, in particular, can serve as the backbone [of the economy] by cooperating with weak economic actors, such as in the distribution of fertiliser, maintaining food stocks, and in the clove trade system. Such cooperative efforts and interlinkages should be expanded, especially for state corporations involved in areas such as energy, transportation, communications and finance. Their strategic position gives them a very great influence [and ability to] stimulate other economic activities, which can, in turn, increase work opportunities, expand the workforce, and thereby strengthen the national economy. Such cooperation and interlinkages might begin from below, or be top-down. Here, the initiative should come from economically powerful businesses. Consequently, the government has a very important role in creating a mutually beneficial business climate between state corporations, the private sector and

cooperatives, as well as between large, medium-scale and small private businesses.

Soeharto (1989)

THE PRESIDENT'S INSTRUCTIONS FOR OUTLINING ECONOMIC DEMOCRACY

From *Demokrasi Ekonomi dan Pembangunan Indonesia: Pesan-pesan Presiden Soeharto kepada Pengurus Pusat ISEI* (Economic Democracy and Indonesian Development: President Soeharto's Instructions to the Central Committee of the Association of Indonesian Economists), 18 July 1989, edited by Hendra Esmara, Jakarta: ISEI: 1–7.

I am happy that Indonesian economists have carried out a careful investigation into developments in the Indonesian economy over the last four Five-Year Development Plans *(Repelita)*. As outlined by ISEI, the achievements since the First Five-Year Plan to the end of the Fourth Five-Year Plan indicate our development success during these twenty years… If this really is the situation, then I am increasingly confident that the path we have chosen is the correct one. As responsible economists, you have witnessed the advances that have been made. In addition, you have also proposed the steps which we must take in the future.

Economic democracy

In accordance with the duties assigned to me by the House of Assembly (MPR), I must account to the MPR for the implementation of development [plans]. Accordingly, I bear full responsibility for the development that has taken place during these four Five-Year Plans. In the current uncertain economic situation, we have tried as hard as possible to overcome various difficulties which we have confronted. We have responded quickly to changes in the world economy. It is now acknowledged internationally that Indonesia has been [better] able to overcome its economic problems than have other developing countries.

I am often surprised when people say that our development has not been successful. We have achieved a great deal, as you have just indicated. Yet we are also aware that there are many problems and challenges that we will have to face in the future. We have attempted to follow our own developmental path according to the mandate entrusted to us by the 1945 Constitution. We have strived to develop and create a just and prosperous society based on the *Pancasila.* The inspiration for implementing such development truly originates from within our own homeland, in accordance with the popular mandate. We need not look for other sources of inspiration, for they may not suit us.

As is entrusted [to us] by the 1945 Constitution and the Broad Guidelines for State Policy, the Indonesian economic system shall be founded on a system of Economic Democracy based on *Pancasila*. [This] system of Economic Democracy differs completely from that operating in any other country in the world. Economic Democracy indicates that production is carried out by everyone, for everyone, under the leadership and supervision of members of society. It is the welfare of society that is given priority, not the welfare of individuals. Because of this, the economy is organised as a common enterprise based on the family principle. The appropriate form of enterprise is the cooperative. No other country has a philosophy like this.

Indonesia's success with development must be seen in this framework. I therefore hope that ISEI will go on to elaborate the intellectual foundations for Economic Democracy and the Pancasila Economy. This is important, so that we can look at Indonesia's development from such a perspective. We have already done what needed to be done for the common people. Now, I hope that you economists will also produce scientifically-reliable formulas for what needs to be done in elaborating economic democracy.

The concept of take-off

We often come across misunderstandings about the concept of takeoff. I fully understand Rostow's theory of take-off. But I do not employ Rostow's theoretical framework to examine this issue. It we had used Western theories to analyse our economy, perhaps we would not even now be independent. The reference points which we could have used [in our struggle] to achieve independence would not have been available at all. Our enemies were fully armed, but we had nothing but bamboo spears. By any standard, we could not possibly be free. Yet it turned out that we were able to seize our independence. In fact, we have now become a strong and well-respected nation.

Take-off [means] striving to strengthen our determination to further the development effort. With this objective, we hope that all possible energies and ideas will be expended on increasing the development effort. The concept of take-off must be seen in the framework of Economic Democracy and Pancasila Economics. There can be no precedents in any other country for the system of Economic Democracy based on *Pancasila*. This is to be expected, if we remember that only Indonesia has a *Pancasila* philosophy. Consequently, as I have just suggested, this issue [of take-off] must be examined on the basis of Indonesian sources.

The foreign debt problem

We [should] also use this way of thinking to adapt Indonesia's economy to recent international developments. We are fully aware that efforts to improve Indonesia's economy cannot be separated from the effort to repair the state

budget. Subsidies which have burdened the budget must be reduced… In the meantime, we will continue to follow existing agreements on loan repayments. I often point out that Indonesia's increasing debt burden is not our fault. As you know, our total debts increased by about US$2 billion simply because of changes in the foreign exchange rate between the Yen and US$. We have therefore asked for understanding from donor countries, particularly Japan. I often state that any additional aid we receive is actually a repayment of the money that they took from us.[10]

The economic adjustments we have implemented have successfully improved our economic position… We have abolished subsidies far more rapidly than proposed by the World Bank and IMF. In some cases, the World Bank and IMF have used our economic policies as the model for improving the economies of developing countries. Yet some believe that it would be better if Indonesia delayed repaying its debts, or reneged altogether—as has Peru… But it is undeniable that Peru suffered countermeasures after it reneged. As a result, Peru's economy is in even a more desperate state. These policies became a boomerang for Peru itself. We do not want this to happen to us.

Poverty and development

Our development efforts up to now have been directed at improving the living standards of…the poor. It is clear from ISEI's reports that between 1976 and 1987 the number of people below the poverty line declined from 40 to 17 per cent of the total population… Evidently, the steps we have taken have succeeded. And so it is with the deregulation we are now implementing. Some believe that deregulation policies will carry us towards liberalism. This is absolutely incorrect. We will not head in the direction of a liberal economic system. A liberal system tends to help those in society who have high incomes. By contrast, the Indonesian Economic System tends to place more importance on the interests of the public, specifically the poor.

Sjahrir (1989)
CHANGING THE IMAGE OF INDONESIA'S CONGLOMERATES

From 'Konglomerat Indonesia: Persepsi Masyarakat dan Perspektif Masa Depan' (Indonesian Conglomerates: Public Perceptions and Future Perspectives), published in the Jakarta business magazine, *Swa Sembada,* September 1989:78–81.

There is a quite widespread and deeply felt refusal amongst Indonesians to accept the presence of conglomerates. In some quarters, [the existence of] these business groups is considered contrary to the ideals of our Constitution. What

they regard as the ideal economic institution—cooperatives—generally become the 'innocent victims of the overwhelming greed' of these business groups.

Social aspects of the economy

Article 33 of the 1945 Constitution contains the basic arrangements for organising the Indonesian economy. Undoubtedly, the economic system which was intended was essentially social in nature: the economy should be organised according to the family principle (subsection 1); productive activities which govern the livelihood of the masses should be controlled by the state (sub-section 2); natural resources should be controlled by the state (sub-section 3). All these points lead us to the conclusion that the government must play a strong role in the national economy. Whether that economic system be called a Pancasila Economic System, a socialist system, or something quite different, one thing is laid out very clearly: it was never imagined that there would emerge a capitalist system in which the government had practically no role.

If we keep in mind that of our Founding Fathers it was Mohammad Hatta alone who influenced the formulation of economic principles, then it comes as no surprise that Article 33 should be associated so closely with ideas emphasising the social responsibilities of the state. The idea of cooperatives, for example, was strongly coloured by his earnest desire to realise the principles of social justice in the ownership of assets, in the division of labour, and in obtaining income. The problem is, we don't live in a utopia. It is, of course, proper that the state correct injustice. But neither the state nor cooperatives automatically give priority to maximising efficiency…

And what about cooperatives? Here, there also seems to be problems with the principles of 'justice' and efficiency. You cannot simply talk about cooperatives as if they were just business enterprises. There are always problems like the need for them to have a social function, or the principles of justice, or any number of other expressions which mean essentially one thing: that there must always be a place for non-business activities and aspirations. A cooperative cannot really be seen as a business enterprise, which means nothing other than pursuing profits by working efficiently.

Economic efficiency

Speaking normatively, what has happened is that no consensus has been reached on what should be the role of the market in the national economy. 'Market forces', a term which is often simply identified with capitalism, seems to have a double meaning in our society. One meaning is its association with capitalism. On the other hand, every first year economics textbook and all introductory courses in all faculties of economics throughout the country accept that…'market clearance' is the sign of efficiency. In a market economy, a point of equilibrium is achieved when P=MC=MR, where prices (P) are fixed at

marginal costs (MC—the cost of producing another unit), which is equivalent to marginal receipts (MR—the benefits gained from that additional unit). At this price, both producer and consumer gain an optimal level of satisfaction…

Yet every textbook also explains how difficult it is in practice to reach a level where price reflects efficiency Even the most complex econometric equation will not fully describe economic reality, Simply because theoretical abstractions do not easily lead to the truth does not mean that theory cannot be used. The implicit and explicit message is that, as an institution, market forces are absolutely necessary to measure and achieve efficiency. The lesson to be learned from economics is that the free market has been given an increasingly important role—even in planned economies like today's Soviet Union and Hungary; it is an absolute necessity for efficiency. Our enemies in the pursuit of efficiency are all forms of captive markets, all forms of oligopoly and monopoly that ignore the role of prices as a path to consumer satisfaction and internal efficiency, and the arbitrary fixing of prices by the government

To talk about conglomerates or business groups is to talk about private business in Indonesia. The groups usually meant are the Liem group, the Astra group, the Sinar Mas group, the Bimantara group, or smaller ones like the Bakrie & Bros and Kodel groups. While not of the same order as the Astra group, the Sinar Mas Group, for example, operates about 50 companies in the financial sector (most notably Bank Internasional Indonesia) and non-financial sector (especially palm oil). Its founder, Eka Tjipta Widjaja, sold palm oil from the outset. For him, business success followed bitter experiences due to arbitrary price setting by the authorities (in this case, the Japanese occupation forces), which seriously constrained his production and trade. He might therefore be expected to now oppose price setting by fiat rather than by market mechanisms.

Of course, market mechanisms themselves can be controlled by the biggest supplier, who may act as a price leader. In reality, however, prices in the palm oil sector have historically been distorted by government pricing, export quotas, and, where necessary, bans on imports. The main issue is, who determines these prices, quotas and bans. Many people suspect that the big producers (including state-owned plantations) have a great influence over such decisions. The Sinar Mas group, whose owner was from the outset very aware of the effects of price-distorting decisions, should have pioneered more healthy market mechanisms through the abolition of arbitrary quotas and bans…

Business groups and the conglomerates have been seriously researched in numerous studies, theses and dissertations. One point on which they seem to be agreed is that in Indonesia no business groups can last more than two generations. Even the *kretek* cigarette groups can be said to have lasted only one-and-a-half generations. In other words, it is highly doubtful that these groups will survive. [One] thing which seems to have a bearing on the survival of these business groups relates to political power… There is nothing unusual about a close relationship between state and business. What may be questioned is its extent. Unfortunately, in Indonesia we have not yet determined what constitutes

a reasonable relationship. It is not surprising that a group which flourishes in one era of political authority should collapse in the next. The disappearance of the Aslam and Markam groups are obvious examples.[11]

Under the New Order economic calculations have become increasingly institutionalised, [and have assumed] greater importance in interpersonal relations and in relations between citizens and state. Obvious examples are the system of personal calculation of compulsory income tax and the expansion of bank services, involving the extension of credit down to the village level. Price distortions still occur…but they are not going unchallenged. What is significant is precisely this growing public sensitivity about such distortions. Clearly, this increased sensitivity should be seen as progress. Public opinion will be formed by such sensitivity, and from this public opinion, sooner or later, will come change.

The existence of a capital market, with all its deficiencies, actually constitutes a new factor that may affect the longevity of these conglomerates. If the shares of the conglomerates are increasingly owned by the public, then the conglomerates will become less and less dependent on the state. Of course, the matter is not that simple. The social spirit which inspires our Constitution makes us very sensitive to the difference between those who have assets (conglomerates and people who own shares) and those who own nothing, the common people. It is here that we have not yet heard the voices of Sinar Mas and other groups. This is a problem that cannot be resolved just by paying taxes. Our society still has a long way to go before it arrives at the point where society-business relations are purely [based on] financial calculations…

Although a capital market may help sustain those conglomerates that release shares to the general public, this alone is not enough. There are still so many capable youths who leave school with no resources. There are still so many possibilities for direct relations between the conglomerates and the general public which have not been explored at all. Do not expect 'understanding' from the public about the expansion of the conglomerates and those who enjoy their dividends if they just remain spectators. In a society like Indonesia, which has a per capita income of US$500, considerable social sensitivity from those who are well-off is required… Conglomerates like the Sinar Mas group must sharpen their social sensitivities as much as they can. If they do not expand by selling shares to the public and sharpening their social sensitivities, the alternative will be much less comfortable.

Kwik Kian Gie (1989)
A SCIENTIFIC BASIS FOR ECONOMIC DEMOCRACY

From 'Demokrasi Ekonomi, Landasan Ilmiah dan Penjabaran Operasional' (Economic Democracy, its Scientific Basis and Operational Formulation), *Kompas,* 1 August.

In simple and popular terms, democracy is of the people, by the people, and for the people. Democracy recognises that supreme authority lies with the people, and that the will of the people should be realised. Through our representative system and modern administration, the will of the Indonesian people ultimately derives from, and is manifest in, the 1945 Constitution and the Broad Guidelines for State Policy (GBHN)… [But these documents] are only normative, describing the ideals sought by our people. The question arises, do we need further elaboration of the main concepts and stipulations contained in the 1945 Constitution and Broad Guidelines for State Policy?

People have different views on this matter. Some say that if the government regulates nothing, then people will act as *homo economicus,* naturally creating the forces of supply and demand which come together in the market. As economic animals, they will seek what is best for themselves… The will of the people will thus find its way naturally, without government intervention. Hence the expression, 'the best government is the government that does the least'. This also gives rise to the joke that the economy grows fastest at night—when the government is asleep. Consequently, economic democracy will occur naturally, without intervention from the government.

A government which has become so heavily involved in regulating should abolish these controls through deregulation. A government which has become so big, with such a complicated bureaucracy, should implement debureaucratisation. A government which owns so many state corporations should adopt the behaviour of private companies, or sell all its corporations through privatisation. Further, those parts of the government which have become decrepit and are beyond repair should be made redundant and their activities contracted to the private sector, to foreign companies if necessary. Recently, some have even called for more drastic measures, for private managers to replace bureaucrats in running the state. Clearly, this is crazy.

Why do some people want to go this far? Could [this idea] possibly have a scientific basis? I believe it does. But I am worried that people might not completely understand the logic that underpins this belief. The logic is comprehended with the mentality of technocrats who have only the breadth of vision of manual labourers.

Let us examine more closely the scientific basis for this conceptual orientation. Clearly, the idea that 'the best government is the least government' is based on capitalism, liberalism and the functioning of market forces. It is also absolutely clear that the current reality in Indonesia is one of capitalism and liberalism, with an economy functioning at all times on the basis of market forces. We therefore need to adopt a firm and clear position on whether capitalism, liberalism and a market economy contradicts the 1945 Constitution and the GBHN…

In the 1945 Constitution, the GBHN and the Fifth Five-Year Plan (*Repelita* V) I can find no stipulation which is anti-capitalist, anti-liberal or opposes market forces. What is not tolerated is *free-fight liberalism,*[12] which the GBHN considers a negative characteristic to be avoided. We clearly need a good deal of

regulation and organisation to avoid free-fight liberalism, a capitalism with no social conscience. If we recognise and approve of capitalism, liberalism and market forces, that does not mean that the government should not intervene. On the contrary, without government intervention the market forces which can create equity, justice and economic democracy will be destroyed by those without ethical values and those who can win on their own. There are many in business like this.

Why is it that as the meeting place between supply and demand, the market creates forces that will bring economic democracy? Because in a free market consumers express their intentions by their preparedness to pay a certain price for the goods and services they require. As economic creatures, consumers will always search for goods of the best quality at the lowest price to satisfy their needs. Producers supplying goods will thus always pay attention to the signals consumers provide, and adapt their intentions…

Unfortunately, a world such as that described in *The Wealth of Nations,* the book written by Adam Smith in 1776, only exists in his imagination… It turns out that the economic democracy brought into being by Adam Smith's market has been violated. The liberalism that was to produce balance and harmony through the operation of perfect competition…has been diverted in the direction of free-fight liberalism, with a market characterised by oligopolies, duopolies and monopolies. Such a situation is described in the elucidation of Article 33 of the 1945 Constitution as one where 'control over production falls into the hands of those individuals in power, and where the common people are exploited'…

We clearly need organisation and regulations so that individual ownership rights do not come into conflict with the common good and so that the full development of every citizen's potential, initiative and creativity is not excessive [and] harmful to society. It is clear that the 'invisible hand' alone is not enough. Optimal bureaucracy and regulations do not contravene the correct market mechanism described by Adam Smith. [They do] not defy liberalism, but will in fact seek to return the market to its pure function, seeking to prevent liberalism from becoming 'free-fight liberalism'. The GBHN does not condemn liberalism. According to the GBHN, it is the negative aspects of *free-fight* liberalism which must be avoided.

It is a common mistake to condemn capitalism and liberalism as inconsistent with the 1945 Constitution and the GBHN. But it is also a common mistake to say that 'we need the best government, namely the least government'… The best government is *optimal* government: neither a minimal nor a maximum [degree of] government. It is precisely the meaning of 'optimal' that needs to be elaborated, as requested by President Soeharto when he set this 'home-work' for the Association of Indonesian Economists (ISEI).

Frans Seda (1990)

THE IMPACT OF THE TAPOS SUMMIT

From a two-part article, 'Dampak Pertemuan Tapos' (Impact of the Tapos Meeting), *Kompas* 8, 9 June 1990.

In his 4 January state address President Soeharto stated that the government bore responsibility for making economic democracy a reality, that it would prevent the concentration of economic power in the form of socially-harmful monopolies, and that the government and its apparatus would not dominate the national economy, but would continually encourage people's potential, initiative and creativity. The recent expansion of big business activity would be directed towards making people as prosperous as possible, with cooperatives promoted to become a mainstay of the economy, a powerful economic force that would also serve as the means for creating economic equity and social justice.

With these words, the President provided us with a clear and succinct formulation of the fundamental problems faced in reorienting the national economy following the current process of deregulation and debureaucratisation. These problems were presented visually when the Tapos Summit between the head of state and heads of big businesses was screened on television. This summit produced what I term the 'Tapos Impact'. To understand what is meant by this term, let us briefly review the process of deregulation and debureaucratisation of the New Order economy.

Deregulation and debureaucratisation, Stage One (1966–1973)

The transition from the Guided Economy to the New Order Economy took place by means of the 'Five Ds': deregulation and debureaucratisation, aided by deconcentration, decentralisation and depoliticisation. The absolute precondition for the rehabilitation and stabilisation of the economy was the rehabilitation and stabilisation of people's confidence—that of both foreigners and of our own people. To this end, these 'Five Ds' were proclaimed with a number of regulations and laws [between 1966 and 1968]…

Now the government had a leading and commanding position [in the economy]. There were two reasons for this. The practical reason was that only the government had the capacity to provide the necessary funds and apparatus for development at this time; the idealistic reason was that the Indonesian state was a 'welfare state'…

An extraordinary oil boom occurred in 1973/1974. Greatly increased state revenues from oil and gas were supplemented by a great increase in foreign aid, allowing the development budget to skyrocket. The increase in state revenues, expenses and their administration also increased the power and authority of the bureaucracy. Formerly a mere instrument, the bureaucracy itself became a distinct power centre, and the process of development planning and decision-

making tended to…become much more centralised. The pattern of import-substitution industrialisation required protectionist policies. Regulation and bureaucratisation spread like wildfire, and was even accepted as the logical consequence of more rapid development.

Thus the tale of Deregulation and Debureaucratisation Stage One came to an end—without anyone regretting it. Why? Because the economy was booming. The rate of growth during these ten years had consistently averaged 7 per cent. The private sector was awash with a budget of Rp 84.3 trillion. Domestic and foreign investment kept increasing. Everyone was optimistic.

Then came 1983/1984. Oil prices fell drastically. There was a sudden devaluation of 55.2 per cent. At the same time, development projects worth about Rp 20 billion were rescheduled. It was realised that the problem was not only budgetary, monetary or due to oil, but structural. There had to be a fundamental reassessment of the entire structure of the nation's economy.

Deregulation and debureaucratisation, Stage Two (1983-)

There is one notable difference between stages one and two of Deregulation-Debureaucratisation. Stage One encouraged economic growth which was concentrated in the hands of the government, which then increased regulation and bureaucratisation, killing Stage One of this process. Stage Two opened up new horizons for decentralised economic growth, but has centred attention on the issue of equity as a precondition for further development.

Despite all the success stories recently associated with Deregulation-Debureaucratisation, the process itself has become the subject of concern. Problems that have been associated with the process include accusations that it has not spread to all sectors, that it has not been intensive enough, and that, in some instances, preparations were inadequate. The high cost economy has evidently not been corrected, although this was one of the aims of Deregulation-Debureaucratisation… New problems have emerged, such as how to take care of those who become the victims of the drive for efficiency and competitiveness, and how to prevent economic power from becoming concentrated in private hands. These pressing problems need to be resolved conceptually, because DeregulationDebureaucratisation Stage Two, as I have pointed out, has focused attention on the problems of equity when responsibility for economic dynamism was transferred from the government into the hands of the private sector.

The events which took place at the Tapos ranch in March should be placed within this grand strategy. Certainly, the meeting took place on a Sunday, and was relaxed and informal, with much laughter. But the meeting had some strategic effects, which I call the Tapos Impact. What was shown on television reports were representatives of the two main forces in the economy, that of the President/head of state, and leaders of large businesses who together control economic assets of about Rp 155 trillion. The government pressured for companies to transfer 25 per cent of shares to cooperatives as a requirement for

economic equity, and were faced with businessmen who responded doubtfully, as if they feared something, but could do nothing other than accept. And the cooperatives themselves did not attend the meeting, but it turned out that they became the main topic discussed by these two centres of economic power.

What was this 'Tapos Impact'?

We realised that there was a concentration of economic power and control in private hands. The thirty-one persons who attended had combined assets of at least Rp 155 trillion (and there must be more than thirty-one big businessmen in Indonesia)… Another effect was [that we realised] how central was the issue of equity. In fact, the equal distribution of wealth was presented as necessary to prevent social unrest, to preserve the business community itself, and as a kind of historical 'right' for a society which has helped big business groups to grow. It was stressed that equity meant not just the redistribution of income, wealth, opportunities and access to resources, but also the redistribution of economic power (the 25 per cent of shares). And this was what scared the businessmen who attended. Money, OK! Other facilities, OK! But economic power, wait a minute! Here, the main problem that we face in restructuring the nation's economy was revealed. It is not simply a problem of preventing monopolies, as the President suggested in his State Address, but what was implied by this Tapos Impact was, above all, how to realise economic equity through *the redistribution of economic power*.

Another effect was a change in the way the government interacts with the business community. In the climate of Deregulation-Debureaucratisation, [it now] emphasises persuasion and dialogue rather than instructions and commands, which was the economic culture of the government in the past.

Implicit in this Tapos Impact was the absence of cooperatives, the subject of the Summit, who have until now been proclaimed to be a mainstay of the national economy. Their absence symbolised the fact that the kind of cooperative hoped for by the government and 'feared' by business is non-existent!… The cooperatives, of course, were not invited to Tapos because the target was big business, to convince them of the need to give shares to cooperatives. But, as I have said, the Tapos meeting was a strategic summit. Consequently, the absence of the cooperatives typifies their weak position. (Unless the government is considered to speak for cooperatives, which then shows how the government dominates the cooperatives.) What is needed urgently is deregulation and debureaucratisation in promoting cooperatives. Cooperatives can only become one of the mainstays of the national economy and an effective means for realising economic equity and social justice if they are independent!

The outline of three different sets of problems became very clear at Tapos, namely the role and economic power of economic forces, the issue of equity, and the involvement of economic agents in development. The malproportions and distortions that accompany these issues also became more visible. In continuing

with Deregulation-Debureaucratisation Stage Two as we enter the stage of take-off, our task in reorganising the structure and function of our nation's economy is to contain, organise and gradually eliminate the malproportions and distortions that have accompanied the emergence of new economic powers…

We must prevent the pendulum of Deregulation-Debureaucratisation Stage Two from swinging too far to the right, which would strengthen the position of business and threaten economic equity. But it must also be prevented from swinging too far to the left, which would return us to government domination and intervention by the bureaucracy (perhaps considered necessary to achieve equity), which would make Deregulation-Debureaucratisation Stage Two worthless.

Many were impressed by the President's firm defence of the interests of the common people at Tapos when he suggested that the Indonesian Revolutionary Trilogy—from the people, by the people, for the people —also applies to the process of economic development in which emphasis has passed to the private sector. The President realises, and wishes others to realise, that the concentration of economic power must not be separated from improvements in people's welfare… Those who were impressed included those who feel alienated by the process of economic reform now taking place under the New Order. Expressions like: 'those who used to be spectators are now actors, and those who are now actors were once spectators' reveal how deeply embedded is this feeling (and fear) of alienation.

Up to now, this process of alienation has been felt in the political realm. The issue of political openness that was recently discussed widely was able to ease such feelings of alienation, if not satisfactorily. Now, feelings of alienation about the process of economic development have emerged. This economic alienation must be prevented from becoming a trigger for frustrations which now exist in society What is needed is an extended process of political and social openness to accompany the extended process of economic deregulation and debureaucratisation.

ISEI—Association of Indonesian Economists (1990)
THE PRINCIPLES OF ECONOMIC DEMOCRACY

From ISEI ('Ikatan Sarjana Ekonomi Indonesia'), *Penjabaran Demokrasi Ekonomi* (Specifying the Principles of Economic Democracy), Jakarta: ISEI: 5–14.

The three important actors in an economic system based on Economic Democracy, namely the state, cooperatives and private enterprise, interact with each other to produce and distribute goods and services. This interaction is essentially based on controlled market mechanisms. The market mechanism ensures the efficient use of public resources and encourages investment in areas

in which Indonesia has a comparative advantage, so that Indonesian products are able to compete with those of other countries. Through healthy competition, the market mechanism also encourages industry to adopt and develop the most appropriate technology.

In reality, market mechanisms do not always function perfectly, whether because those involved in the economy have unequal power, or because they engage in unhealthy forms of competition. In addition, freedom of supply and demand must be prevented from contravening the solidarity principle and the family principle—such as are intended in Economic Democracy. Nor may freedom of supply and demand contradict deeper social values and interests, such as public morality, defence and security, and public law and order. Consequently, in an economic system based on Economic Democracy the government is obliged to intervene in market mechanisms when necessary, while maintaining control of those branches of production that are important for the state or which influence the livelihood of the common people.

In an economic system based on Economic Democracy, the government is obliged to prevent the market being controlled by individuals or by groups and monopolies that would harm society, but should try to ensure that all operations have equal business opportunities.

The economic institutions

The state, cooperatives and private enterprise in an economic system founded on Economic Democracy operate in all business areas appropriate to their particular roles and characteristics.

State enterprises serve: a) as pioneers in providing goods and services in those areas of production that have not yet attracted sufficient private interest; b) as managers and entrepreneurs in areas of production that are important to the state; c) as managers and entrepreneurs in areas that affect the livelihood of the common people; d) as a counterweight to the power of the market and private business; e) to supplement the supply of goods and services that have not been adequately supplied by private business or cooperatives; and f) to support the implementation of state policy. In the light of this role in an economic system based on Economic Democracy, the success of state enterprises will not be measured according to the same criteria used for private business—except that they are obliged to perform efficiently and productively.

Cooperatives, one type of business organisation stipulated in the 1945 Constitution, are given the most extensive opportunity to undertake roles appropriate to their essential character, namely economic units with a social orientation.

And private enterprise is given the greatest role possible in areas where competition and cooperation based on the profit motive provide society with the best results in terms of the type, volume, quality and price of goods and services provided.

Economic development based upon Economic Democracy stipu lates that society must play an active role in development. So that people can participate in development, private enterprise has an important role to play in a system of Economic Democracy, as do cooperatives and state enterprises. The government is obliged to provide direction and guidance for economic development, and to create a healthy climate for the business community. For its part, the business community needs to respond with tangible activities to this direction, guidance and…climate. Both the government, through the legal system, and the business community, by promoting a healthy business ethos, must protect society from business behaviour that harms the public interest…

All the above economic players have distinct functions and roles, and help determine how the economy operates. The relationship between the different economic players in an economic system founded on Economic Democracy is mutually supportive, and based on a spirit of solidarity and the family principle. The progress and development of the strong economic players is not hindered, but they are obliged to assist the weaker economic players to develop. On the other hand, weak economic players must be assisted and encouraged to make faster progress. All economic players can thereby grow and develop together.

The policy instruments

The Indonesian economy is essentially a controlled market economy, in which economic policy instruments primarily serve to influence supply and demand. The objective is to direct and control the development process so as to achieve quite a high level of growth and maintain economic stability, and to realise the equal distribution of the fruits of development. In a system of Economic Democracy the government directs, guides and controls economic processes (production, distribution, investment and consumption) using primarily indirect means, by influencing supply and demand…

In an economic system based on Economic Democracy, the role of the state budget is crucial; it is to be used by the government for the following purposes:

a The redistribution of resources for equalising the distribution of wealth;
b The development of infrastructure that is vital for development;
c Macro-economic policies to preserve economic stability;
d The provision of basic government services to the public.

The state budget must effectively become the means to redistribute resources and equalise the distribution of wealth between regions, [economic] sectors and amongst the population, because it cannot be done using market mechanisms. The key to creating economic equity using the state budget is the existence of a) a just system of taxation; and b) efficient policies and mechanisms for allocating state revenues… The state budget will serve an effective purpose in a system

based on Economic Democracy whenever both taxation and state expenditure function effectively to help create economic equity.

The exploitation of resources

Public resources should be utilised [to realise] the greatest prosperity of the people. In an economic system founded on Economic Democracy, it is society itself which should, in principle, exploit resources for the common good. The government's primary role is to provide guidance and to create a conducive climate, so that public resources are used as efficiently as possible and increase everyone's prosperity as much as possible.

The distribution of income

An economic system based on Economic Democracy would be obliged to realise what is mandated by the 1945 Constitution, namely that priority will be given to the prosperity of society and of all the people, not to the wealth of individuals.

It is not possible for everyone to have the same level of income. Economic Democracy recognises that income differences reflect differences in achievement and, to a certain extent, differences in experience, seniority and ownership of wealth. But Economic Democracy also requires that such differences be kept to a reasonable level.

In an economic system based on Economic Democracy, priority will be given to the eradication of absolute poverty. Policies to equalise the distribution of income will emphasise increasing income by raising the level of participation in productive activities and by using taxation and the state budget to transfer income from high-income groups to low-income groups.

In order to realise social justice, a system based on Economic Democracy would distribute more evenly the ownership of both tangible and intangible assets. Intangible assets can be redistributed by providing education and health facilities to low-income citizens, while tangible assets can be redistributed by programmes such as transmigration and *perkebunan inti rakyat*.[13]

Incentives in the decision-making process

In an economic system based on Economic Democracy, which requires the greatest possible level of popular participation in the economy, people make decisions independently… Market mechanisms and the economic policy [making] process operate transparently. Government policy can thus be implemented smoothly and public supervision can be effective.

The decision-making process in a system based on Economic Democracy is open. There are guaranteed forums for discussion, expressing opinions, and for free and responsible communication on problems faced by the nation. This

increases public participation and makes it clear that the public supports all government policy measures.

Unlike command or coercive economic systems that are founded on statism, an economic system founded on Economic Democracy encourages individual achievement with a system of incentives using instruments such as fiscal, monetary, balance of payments, credit or tariff policies. Profits are an inextricable part of an economy founded on Economic Democracy, which has a controlled market economy. The profit motive provides the incentive to take initiatives, begin enterprises and take risks.

Nevertheless, Economic Democracy requires that such profits be obtained from genuine business activities conducted in a genuinely competitive environment. Profit-making…must be based on a business ethos that has developed from social…commitment. Because profits are so important in encouraging people to make initiatives and take risks, the profit motive must be regulated through the legal system, by such means as anti-monopoly laws, laws for fair business practices, and laws to protect small-scale business. The government and the business community will maintain fair competition, not simply to protect small-scale and economically weak business groups, but to protect the public interest so that people can acquire goods at a reasonable price.

Fadel Muhammad (1992)
THE TASK FOR BUSINESS: TO PROMOTE ECONOMIC EQUITY[14]

From his book, *Industrialisasi dan Wiraswasta, Masyarakat Industri 'Belah Ketupat'* (Industrialisation and Entrepreneurship: Towards a 'Diamond-Shaped' Industrial Society), Jakarta: Gramedia: 32–39.

Our Constitution indicates that we should make an effort to contribute. For the business community, this means we should indeed ignore *profiteering,* but not the profit motive. Business should endeavour to produce goods which meet people's needs at a reasonable price. Because of this, business should always make an effort to find the best way to provide services that satisfy the community. At the same time, business [will] seek a fair profit. Unhealthy competition and 'tricky practices' will obstruct the growth of the business community itself.

So this reminds business not to seek profit simply for its own sake. Profits should be considered social assets redistributed from society to business. So business is duty-bound to allocate these social assets into productive activities, creating opportunities for people to become involved. This involvement means employment opportunities, which will, in turn, provide the impetus for [increasing] the purchasing power of society.

Society's purchasing power is extremely important for the survival of, the business community. This means that in times of economic growth if all that happens is that the income of business and the owners of capital grows, but that of their workers does not, then growth will only touch the upper levels of society. Inequity will result, and will eventually threaten economic growth… The method [of development which I propose] means that we make society the subject, one of the actors in the business community. Thus…the public would have a determining role, in that it would become the driving force behind the business community.

Does today's business community operate with such a set of ideas? This is a difficult question. I am only prepared to say that our business community is still in a transitional phase, in which its actors—especially the private sector—do not yet have a 'firm strategy'. Without such a strategy they often fall into the trap of just looking for opportunities for profiteering. I do not know for certain whether all privately-owned companies are aware of this…

Not only that, but the structures are not stable and competition is not transparent. In this situation, can we consider that societal forces—actors in the national economy from the non-state sector—are ready for privatisation?… Experience to date shows that firms have only a weak structure when entering the overall structure. This weakness is partly the result of our national situation, with agrarian structures being transformed into industrial structures. Consequently, it can be said that our business community is still shaped like a pyramid, with the peak of the pyramid made up of leading firms who arrived there without significant competition, but with government promotion.

The transformation: from a pyramid to a diamond-shape

Globalisation today is essentially driven by scientific and technological development, which has some logical consequences for the nations of the world… The phenomenon of globalisation is diametrically opposed to the particular problems faced by each individual nation… [I]nternational competition is steadily increasing. Competition is no longer just about controlling markets and goods, but, more importantly, about mastering the knowledge of such goods. This means nothing other than mastering science and technology…

The availability of infrastructure, no matter how comprehensive it may be, will not lead to the mastery of science and technology. Only people can achieve such mastery. Because of this, scientific and technological development can only be anticipated by people's capacity for innovation and the quality of leadership. The capacity to innovate is a sign of human creativity and initiative. And this capacity will only realise its potential when motivated by human leadership.

It is hoped that these two capacities will make up for, at both the micro-level and macro-level…, a weak firm structure and a weak firm strategy. With these two capacities becoming part of the individual actors in the economy who drive

the business community, we hope that today's business community can be transformed from a pyramid shape into that of a diamond, a dynamic condition in which the business class is dominated by its middle-level.

The issue thus becomes, how to carry out this transformation? Automatically, this transformation means restructuring the business community overall, and especially the private business class. This restructuring will in turn stimulate broad social transformation, a restructuring which will abolish social inequities. How then do we stimulate and develop medium-scale business? A social group that reflects a high level of entrepreneurial spirit? In my view, this effort must begin with everyone using the same framework, especially those groups in the upper level. On this basis, we hope that there will be created a firm structure for individual companies and, more generally, a firm strategy oriented to achieving the same idealistic goals—an idealism which favours business behaviour that makes a contribution to society.

This way of thinking will eventually lead to the formation of an Indonesia Incorporated which is strong and internationally competitive. The roots of these ideas lie in the appreciation of the potential of human resources. Here, I agree with a point of view which has now become common—and argued theoretically by Michael Porter—that the factors of production are no longer those of classical economic theory. This view considers that the factors of production now are the human capacity to create and the availability of infrastructure. It is difficult to picture how the world could have achieved what it has without human creativity. We might also add that infrastructure is itself very dependent on the creativity of those people who planned it. We thus have a common responsibility to build a society which has a capacity to innovate and a capacity for leadership. Consequently, education in a broad sense is one important path for bringing about this transformation…

Another path to realise this transformation is the business community itself, by providing definite business opportunities to lower-level and medium-level business. At the same time, such business opportunities will encourage the formation of supporting industries and an atmosphere of healthy business competition.

NOTES

1 Real GDP growth during the Fourth Five-Year Development Plan (1983– 1988) was about 5 per cent, while in 1989 and 1990, it was respectively 7.4 and 7 per cent (Rudner 1991:37).
2 As was the case of the debates on the Pancasila Economy in the late 1970s and early 1980s.
3 Whose total assets reputedly amounted to Rp 155 trillion or US$85 billion. See contributions of Seda and Muhammad in this chapter.
4 See Frans Seda's contribution to this chapter.

5 The institution is generally comprised of political notables who no longer occupy positions of real power, but are awarded a place in the DPA in recognition of their past contribution. The current chairman of the DPA, for example, is retired Admiral Sudomo, a close Soeharto confidante, who was a former Minister of Manpower and security chief.
6 See Robinson Pangaribuan (1995) for details.
7 The themes of the Tapos meeting, for example, continue to be relevant Five years after the meeting they were again taken up. Following the completion of an indoctrination course on *Pancasila* especially organised for owners of large conglomerates, including the Chinese, a statement was issued by its participants declaring that 'democratic principles should be the foundation for economic development by becoming a means to foster solidarity among economic actors'. Here, they reiterated the commitment to help the development of smaller entrepreneurs (*Republika* 28 August 1995).
8 This document uses the populist Sukarnoist term, *kegotong-royongan,* 'the principle of mutual assistance', to describe the philosophy on which the economy should be based.
9 Literally, 'businesses with large capital bases', *usaha-usaha yang bermodal kuat*.
10 This statement clearly refers to the colonial experience.
11 The business empires of these two so-called 'Palace Millionaires' were built on the political patronage they enjoyed in the final years of the Sukarno regime in the early 1960s.
12 Here Kwik uses an evocative term which captures the distrust with which many regard market forces, *liberalisme dengan persaingan gontokon bebas,* 'liberalism with free fist-fight competition'.
13 A modern plantation production system, organised by the state, which involves the land and labour of large numbers of peasant smallholders.
14 The *'belah ketupat'* in the title refers to the bulbous shape of a common Indonesian rice cake *(ketupat),* which is hexagonal. Its shape is thus like that of a diamond, which is how we have translated the term. But it should be noted that, unlike a diamond, the term has strongly populist associations. Fadel uses it as a metaphor for something that is large in the middle, such as, in this case, a society with a large strata of medium-sized businesses.

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PANCASILA

1. KETUHANAN YANG MAHA ESA
2. KEMANUSIAAN YANG ADIL DAN BERADAB
3. PERSATUAN INDONESIA
4. KERAKYATAN YANG DIPIMPIN OLEH HIKMAT KEBIJAK - SANAAN DALAM PERMUSYAWARATAN / PERWAKILAN
5. KEADILAN SOSIAL BAGI SELURUH RAKYAT INDONESIA

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The politics of economic development in Indonesia

Indonesia's economy has boomed in the three decades since President Soeharto came to power. Many now regard Indonesia as one of the world's great economic success stories. But economic change has not come easily, and has given rise to intense debates within Indonesia about the ideals and goals of development.

Translating key speeches and articles by leading Indonesian figures, Ian Chalmers and Vedi R.Hadiz present and analyse trends in economic thinking during this period. They outline three streams of thought advanced by contending political forces which have long influenced policy making: economic nationalism; economic liberalism; and economic populism. Tracing their evolution, this volume demonstrates that Indonesia's recent economic success has been accompanied by a growing diversity of views about Indonesia's future. These views will vie for dominance as Soeharto's presidency inevitably comes to an end.

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